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ABSTRACT

This series of 20 self-contained lessons in the study of economics, features activities that can be used with any high school economics instruction. The lessons included are: (1) Opportunity Costs; (2) Factors of Production; (3) Economic Systems; (4) Self Interest; (5) Class Struggle; (6) Economic Institutions; (7) Supply and Demand; (8) Markets and Prices; (9) Laws of Distribution; (10) Wages of Labor; (11) Interest on Capital; (12) The Law of Rent; (13) Gross National Product; (14) Business Cycles; (15) Taxation; (16) The Single Tax; (17) The Malthusian Theory and the Law of Diminishing Returns; (18) Comparative Advantage; (19) Free Trade or Protection; and (20) Economic Problems of Less-Developed Countries. Each lesson includes a theme, a sub-theme background, concepts, performance objectives, and a list of related texts. (DB)

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Land and Freedom--Economic Studies

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SO 021 155

LAND AND FREEDOM

ECONOMIC STUDIES

1. OPPORTUNITY COSTS

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Economics is the study of how society makes choices concerning the use of its resources.

Sub-theme: Opportunity cost is the value of the thing not chosen in any decision. It is the value of the thing one gives up by making a choice.

Background: See next page.

Concepts:
- resources
- opportunity cost
- public funds
- land speculation
- urban sprawl

Performance Objectives: Students will be able to:
- *research* the cost of a college education
- *evaluate* a chart on a local budget
- *write* an essay on strip mining

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 4
- *Economics,* Merrill, ch. 2
- *Economics,* South-Western, ch. 1
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 4
- *Economics Today and Tomorrow,* Harper & Row, ch. 1
- *Invitation to Economics,* Scott, Foresman, ch. 1

Because today's world demands a better grasp of economics by all, these lessons are published in the public interest by the Henry George School.

Henry George was an economist and philosopher whose land reform ideas have been adopted in many parts of Australia and New Zealand, as well as in Pennsylvania's major cities, including Pittsburgh. Land is a gift of nature, according to George, needed by all and to be shared by all, not by just a few.

The Henry George School, a non-profit academic institution, was founded in 1932 and chartered by the University of the State of New York. Besides its headquarters in New York, the School has affiliates in Philadelphia, Los Angeles, San Francisco, Long Island, Boston, Chicago and the Dominican Republic, and state coordinators in over eight states.

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OPPORTUNITY COSTS

Economics is the study of how society makes choices concerning the use of its resources -- land, labor and capital. Human nature tells us that people always seek to maximize benefits and minimize costs. This principle of human nature reveals important information about how people spend money.

Every economic choice one makes denies another choice that could have been made. For example, if a woman has $5, she can either buy lunch with the money, or she can go to the movies. If she goes to the movies, she gives up the pleasure of lunch. If she eats lunch, she gives up the enjoyment of watching the movies. In a decision like this, the value of the thing given up is defined as opportunity cost. The person making the decision must decide which choice creates the least opportunity cost. This will maximize benefits (pleasure) and minimize costs (sacrifice).

Society as a whole also incurs an opportunity cost when it decides to use its resources for a particular purpose. Government decisions on tax policies and spending for public goods influence how society uses its resources. For example, spending public funds to build a bridge means that we cannot use that same money to build a dam. The opportunity cost for building the bridge is the loss of the dam that would create hydroelectric power and flood control. If we build the dam, the opportunity cost is the loss of the bridge which would reduce the cost of transportation and save energy, labor time and capital in commercial jobs.

Government policies concerning land also create an opportunity cost. Land speculation is the practice of holding land out of use to sell it for a profit when land prices rise. Sometimes land speculators borrow money to buy land. The loan money, which could have gone to a productive business, goes instead to a speculator who will hold the land idle and produce nothing of value.

Land speculation creates a great opportunity cost to society. Financial resources are tied up in land, while potential jobs and the production of new wealth are discouraged when land is held idle. This does not allow society to maximize its resources in the production of wealth.

When land is held out of use in cities, construction companies are forced to seek out land for housing in suburban communities. If land is also held out of use by speculators in these areas, builders must move further out to rural areas. The opportunity cost of this urban sprawl reveals itself in increased travelling expenses, higher utility costs, more road construction and higher housing prices. In addition, this tends to prematurely destroy farmland, since the land is more valuable for home sites than for food cultivation.

A study of opportunity costs shows that, in economic decisions, the smartest choices are those which benefit society as a whole. Future consequences of any decision must also be considered to minimize costs and maximize benefits.

OPPORTUNITY COSTS

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. What are resources?
2. Explain and give one example of opportunity cost.
3. How does land speculation create an opportunity cost?
4. Is there a conflict between the land speculator and society? Explain in terms of opportunity cost.
5. What are some of the effects of urban sprawl?

Activity II — Researching Costs

Choose three colleges you would like to attend. Visit your guidance counselor and ask for the appropriate college catalogues. Look up the following costs:

1. tuition expenses
2. living expenses
3. books
4. travel
5. interest on loans
6. miscellaneous

Now that you have an idea of the cost of a college education, decide what other things you could do with the money.

1. If you put it in the bank, how much interest would it earn over the course of a lifetime?
2. If you went to work for those four years, how much could you earn?
3. If you started a business, how much could you earn with the money?
4. How much could you earn if all your college money was invested in the stock market?
5. What type of job do you expect to get when you finish college? How much will it pay?
6. If you do not go to college, what kind of job will you expect to get? How much will it pay?
7. Are there non-monetary benefits in obtaining a college education which outweigh the opportunity cost of the money spent?

OPPORTUNITY COSTS

Activity III — Local Government Budget

You have been asked by the council of governors to draw up a proposed budget for state and local government. The council also wants to know what positive gains will come from your changes and what negative effects will result from your decision to change spending patterns. In the chart below, please write in your choice for the amount of the budget (in %) to be spent on each item. (Last year's amounts are listed.) Then list one positive and one negative effect of your decision.

		State and Local Government Expenditures Proposal		
Expenditures (%)		Your Decision (%)	One Positive Gain	One Negative Result
Education	35.0%			
Public Welfare	13.0%			
Highways	8.0%			
Hospitals	7.0%			
Police	4.0%			
Parks & Recreation	6.0%			
Public Transit	5.0%			
Public Housing	6.5%			
Others	16.0%			

Activity IV — Writing an Essay

Read the excerpt below on strip mining and then write a two hundred word essay describing the opportunity cost of strip mining. In the essay, write a paragraph explaining how each of the following has been effected by strip mining:

individual worker
worker's family
local inhabitants
farmers

STRIP MINING — Coal is deeply woven in the story of Appalachia's poverty. Underground coal mining hit a peak after World War II (1939-1945). Many Appalachian men worked in deep pit mines where narrow shafts were dug to reach the coal. In the 1950s the mining companies began strip mining. This new method, instead of digging tunnels used huge machines to scrape wide but shallow holes in the hillside to lay bare the coal.

Many miners lost their jobs. Some moved to large cities to look for work, but most stayed. There were few jobs for them, however.

Strip mining has wounded the land of Appalachia as well as the people. Strip mining tears off the top soil — the richest soil — and leaves the hillsides bare. Rains wash away what soil is left. Each year about 12,000 or more acres of land are scarred by strip mining. A few mining companies cover up their cuts, but many move on and leave the damaged land behind.

LAND AND FREEDOM

ECONOMIC STUDIES

2. FACTORS OF PRODUCTION

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: The factors of production are combined to produce wealth.

Sub-theme: Land, labor and capital are the three factors of production.

Background: See next page.

Concepts:
- land
- labor
- capital
- factors
- management

Performance Objectives: Students will be able to:
- *analyze* a reading on the factors of production
- *trace* the production process in items of wealth
- *classify* terms as either land, labor or capital

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 4
- *Economics,* Merrill, ch. 11
- *Economics,* South-Western, ch. 8
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 5
- *Economics Today and Tomorrow,* Harper & Row, ch. 1
- *Invitation to Economics,* Scott, Foresman, chs. 1, 10

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FACTORS OF PRODUCTION

Land, labor, and capital are the ingredients which people use to produce goods or wealth, and are sometimes referred to as "factors of production" or "productive resources." Each factor is important and plays a unique role in the production of goods.

The first factor, land, is necessary to the creation of wealth. Land is defined as everything in the universe that is not created by human beings. Air, sunlight, forests, earth, water and minerals are all classified as land. Land differs from labor and capital because it cannot be increased as can labor and capital. It is a passive but necessary factor. Labor uses capital on land to produce wealth. Every tangible good is made up of the 'raw materials' which are land.

Wealth is defined as those tangible goods, produced by labor, which have exchange value and directly satisfy human desires. Capital is wealth which is used to produce more wealth. A hammer, a screwdriver, and a saw are used by a carpenter to make a table. The table has exchange value. The truck which delivers the table to a retail store, the hammer and other tools are all forms of capital. Labor uses the capital (saws and trucks) on land (the trees which become the wood for the table) to produce wealth.

Society's stock of capital goods can increase if the factors of production are used to create capital. In order to create capital, society must decrease production of consumer goods. Decreasing consumption of goods increases savings. (If money is not spent, it is saved.) Saving the factors of production means creating a tool or a machine. This capital can then be 'spent' to produce additional goods or capital. Capital makes labor more productive. A sewing machine can help a seamstress to sew ten times as fast. Increased productivity, through the use of capital, creates a higher standard of living.

Labor is defined as the human effort involved in the production of goods. Labor includes both physical and mental effort. Designing the sewing machine and then using it are both forms of labor. Management is also a form of labor. The manager of a grocery store is paid for his labor. The owner of the store may work behind the counter and receive a return (payment) for labor, but also for the capital he owns and the land he rents. His return is mixed. It comes from all the factors of production.

Labor has also been defined as "human capital" because it includes skills which help to make it productive. Investments in education or job training are referred to as investments in human capital because they help labor's productivity to increase. However, labor is not like capital. Labor can still produce wealth without capital. (People can pick flowers or catch fish with their hands.) Capital is a physical object which can produce nothing without labor.

The factors of production are interdependent. Capital helps labor to produce more wealth. Labor must work on land and needs land to transform it into the goods we want and need.

FACTORS OF PRODUCTION

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. What are the factors of production?
2. Briefly define each factor of production.
3. Why are the factors interdependent? Explain.
4. What is wealth? Give an example.
5. Why is land considered a passive factor of production?
6. How do capital and labor differ from land?
7. How does society create wealth?

Activity II — Analyzing the Factors of Production

Economist Alfred Marshall exerted much influence on the British. In this excerpt from his *Principles of Economics*, Marshall speaks about the factor of land. He emphasizes the role of manager and organizers within the labor sector.

> Land is on a different footing from man himself and those agents of production which are made by man; among which are included improvements made by him on the land itself. For while the supplies of all other agents of production respond in various degrees and various ways to the demand for their services, land makes no such response. Thus an exceptional rise in the earnings of any class of labour, tends to increase its number, or efficiency, or both; and the increase in supply of efficient work of that class tends to cheapen the services which it renders to the community. If the increase is in their numbers then the rate of earnings of each will tend downwards towards the old level. But if the increase is in their efficiency; then, though they will probably earn more per head than before, the gain to them will come from an increased national dividend, and will not be at the expense of other agents of production. And the same is true as regards capital; but it is not true as regards land.

Please answer the following questions:

1. What is the central theme of this paragraph?
2. What is meant by "land makes no such response"?
3. According to Marshall, what is the relationship between land, labor and capital?
4. Marshall, in another portion of his book, states that land is but a particular form of capital from the point of view of the manufacturer. Is this a contradiction? Explain.
5. Give other examples of how capital and land are considered the same thing.

FACTORS OF PRODUCTION

Activity III - Tracing the Production Process

Make a list of 10 examples of wealth. Then give examples of the corresponding land, labor and capital used to produce this wealth. Two items are given as examples.

Wealth	Land	Labor	Capital
1. a house	a building lot	architect	concrete
2. automobile	iron ore	engineer	robot

Activity IV — Classifying Terms

Classify each term from the list below as either capital, labor or land. If you do not think that the item belongs in any of the categories, place it in the fourth column, non-applicable.

taxi cab
salesman
store owner
factory
apple pie
savings bond
Pres. of GM
teacher
school bus
typewriter
air
tires
river
slave
computer
flowers
money
forest
wild boar

Land	Labor	Capital	Non-applicable

LAND AND FREEDOM

ECONOMIC STUDIES

3. ECONOMIC SYSTEMS

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: All economic systems attempt ot solve the basic economic problem of providing people with the material things they want and need.

Sub-theme: Traditional, market, command and mixed economies represent different approaches to solving this economic problem.

Background: See next page.

Concepts:
- traditional economy
- market economy
- command economy
- economic systems
- Georgist economy

Performance Objectives: Students will be able to:
- *critically read* an excerpt discussing command economy
- *analyze* school services and distribution of goods based on economic systems
- *evaluate* factors and distribution of production according to economic systems

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 19
- *Economics,* Merrill, chs. 1, 16
- *Economics,* South-Western, ch. 2
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 17
- *Economics Today and Tomorrow,* Harper & Row, ch. 2
- *Invitation to Economics,* Scott, Foresman, ch. 6

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ECONOMIC SYSTEMS

Economic systems differ in the methods they use to solve the problems of production and distribution of goods. An economic system is a set of rules, guidelines and institutional values. Its main purpose is to solve the basic economic problems of unlimited wants with limited resources. Economic systems solve this problem by answering three basic economic questions. What goods should the community produce? How should these goods be produced? For whom should these goods be produced?

In answering these questions, each society must make value judgements concerning its needs. The question of what to produce must take into account the type of goods a society wants and is best able to produce. For example, a society must decide whether it is better to produce beef or bread to satisfy its need for food.

Similar questions exist for the "how" of production. Society decides what percentage of land, labor and capital to use in production. For example, should shoes be made by hand or by machine? Society must also decide who will control the use of capital, labor and land. How much each factor should be paid for its contribution to production is another value judgement made by society.

Decisions must be made as to who will receive the finished consumer goods. The distribution of those goods will be based on the contributions of land, labor and capital, or on the basis of need.

A traditional economy is characterized by a feeling of loyalty to the past. Custom, habit, religion, law and other cultural values determine the what, how and for whom of production. In a traditional economy, methods of production are handed down through the generations. Concepts such as land ownership and socio-economic class are based on custom. Pre-existing values and customs form the basis for economic decisions. This type of economy is usually found in primitive societies where ritual and custom play an important role. Thus, new ideas and change are discouraged.

In a market economy, free enterprise and private ownership of the factors of production (land, labor and capital) is the rule. Individuals are free to enter any business venture they wish. They decide how to use their available resources. Self-interest motivates business people to compete. Competition for consumers forces each to sell the best quality goods at the lowest prices. Buyers and sellers operate by the laws of supply and demand.

The command economy is characterized by government ownership or control over the factors of production. Instead of market forces determining the what, how and for whom of production, the government is the exclusive decision maker. Through the use of central planning committees, decisions to produce specific goods, methods of production and the distribution of products are made. Although we tend to think of a command economy as existing in a totalitarian government, as in the Soviet Union, there are elements of the command economy in the United States.

Georgism, or the economic system advocated by American economist Henry George, combines the freedom of the market economy with the social responsibility of the command economy. Laborers are free to choose their own jobs and capital owners are free to seek their own rewards. All are paid according to their contribution to production. Land, however, though privately owned, is considered a social resource, and the rewards of its ownership would be paid accordingly — to the community.

Each of these systems attempts to solve the problems of production and distribution of society's wealth in different ways.

ECONOMIC SYSTEMS

Activity I — Backround Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. What is an economic system?
2. What are the basic economic questions addressed by an economic system?
3. Briefly describe each of the economic systems discussed.
4. Explain George's proposed system.
5. What economic system do you live under? Explain.
6. Compare George's economic philosophy with the market, command and traditional systems.

Activity II — Exploring the Command Economy

In the following excerpt from *Road to Serfdom,* Friedrich Hayek criticizes central planning in the command economy.

> It is no exaggeration to say that if we had had to rely on conscious central planning for the growth of our industrial system, it would never have reached the degree of differentiation, complexity, and flexibility it has attained. Compared with this method of solving the economic problem by means of decentralization plus automatic co-ordination, the more obvious method of central direction is incredibly clumsy, primitive, and limited in scope. That the division of labor has reached the extent which makes modern civilization possible we owe to the fact that it did not have to be consciously created but that man tumbled on a method by which the division of labor could be extended far beyond the limits within which it could have been planned. Any further growth of its complexity, therefore, far from making central direction more necessary, makes it more important than ever that we should use a technique which does not depend on conscious control.

After reading the excerpt above, please answer the following questions:

1. What is the central theme of Hayek's discussion?
2. What is meant by "conscious control?"
3. How valid is Hayek's criticism of central planning?
4. How would you gather evidence to support the validity of this argument?
5. Cite two example of how your life is governed by a command economy system, and two for a market economy.

ECONOMIC SYSTEMS

Activity III — Evaluating Goods and Services

Below is a list of school services and goods distributed to students. Have students list all items on a sheet of paper. After each item, indicate whether it is distributed according to the laws of traditional, market or command economy. Then compose an essay suggesting alternative ways for three of these to be distributed.

Courses: Driver Education, English, Social Studies, Foreign Language, Math, Study Hall. Computers, library services, parking spots, text books, lunch programs, remedial help, social work services, tutoring services, review books, laboratory equipment, class rings, year book, school dances, school football games, membership on an athletic team, school newspaper.

Activity IV — Charting Economic Systems

Fill in the chart to explain how Command, Market, Traditional and Georgist economic systems treat the items below.

	Command	Traditional	Market	Georgist
Land	ex: government owned	private or government	private	private
Labor				
Capital				
Rent				
Wages				
Interest				

LAND AND FREEDOM

ECONOMIC STUDIES

4. SELF INTEREST

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Self interest is a motivating force in people's economic behavior.

Sub-theme: There are a number of different human behaviors which indicate that people make choices based on self interest.

Background: See next page.

Concepts:
- Self interest
- pure market
- competition
- bargaining power
- substitutes
- wealth

Performance Objectives: Students will be able to:
- *analyze* primary sources
- *examine* the economic behavior of individuals
- *use* a survey approach to explore self interest

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 17
- *Economics,* Merrill, ch. 1
- *Economics,* South-Western, ch. 2
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 7
- *Economics Today and Tomorrow,* Harper & Row, ch. 2
- *Invitation to Economics,* Scott, Foresman, ch. 2

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SELF INTEREST

"You think you are helping the economic system by your well meaning laws and interference. You are not. Let be. The oil of self interest will keep the gears working in almost miraculous fashion. No one need plan. No sovereign need rule. The market will answer all things." — Adam Smith, *Wealth of Nations*

In economic terms, self interest means that each person pursues a specific economic activity which will improve his own life. A producer of goods wants most to increase his own wealth. He tries to make the largest possible output using the smallest amount of land, labor and capital.

Consumers, too, are influenced by self interest. They want the best product and the most satisfaction for the least cost and effort. Therefore, lower prices can easily effect consumer choices. This tug-of-war between producers trying to maximize income and consumers looking for a bargain helps to create the best possible product at the right price.

Self interest works best in a pure market economy. In the ideal state of a pure market, competition would work perfectly to produce products of the best quality and price. Consumers desires could always be fulfilled. In a pure market, the large number of producers would not be able to influence prices unfairly. Consumers would be free to choose between many substitute items of varying price and quality. Vast numbers of producers would be unable to band together to change prices. Pure competition, motivated by self interest, would insure the best services and products at the best prices.

However, since our economy is less than perfect, the advantages of self interest are harder to see in the real world. Income and wealth are not distributed equally. Consequently, both consumers and producers can use their bargaining power to alter the situation unfairly. Producers can refuse to pay workers adequate wages, or can increase sharply the prices of their products. Consumers can make unwise choices in what they buy due to wrong information.

The alternative to self interest is to have society (government) make decisions for the welfare of all its citizens. Very often public works projects are taken on by the local or federal governments because private companies will not build roads or dams for the whole community. This would conflict with their own self interest since the project would not generate more wealth for them. In the 1930s, the Tennessee Valley Authority built several dams along the Tennessee River. This project created low cost electricity and flood control. The work benefitted all residents; the government paid for the project because private industry would not.

In the real world, both consumers and producers may make decisions which may harm society as a whole. Deceptive advertising may enhance the producers's wealth, but does it promote the good of society? Advertisements for sugar-coated candies appeal to children, but eating too much sugar is bad for one's health. And what about ads for cigarettes?

Consumers are motivated by many needs. For example, a drug addict may steal money to buy drugs. Do his actions contribute to a better society? Although self interest is an important balancing force between the producers and consumers of wealth, individual choices do not always benefit society as a whole. Uneven bargaining power and poor or uninformed consumer choices distort the economic process motivated by a moral self interest.

SELF INTEREST

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. What is meant by self interest?
2. What is in the self interest of a producer? A consumer?
3. When does self interest work best?
4. When does self interest harm society?
5. To what degree, if any, should self interest be regulated or controlled?

Activity II — Reading Adam Smith

Read the following excerpt from Adam Smith's *The Wealth of Nations* and then answer the questions which follow.

> As every individual, therefore, endeavours as much as he can both to employ his capital in the support of domestic industry, and so to direct that industry that its produce may be of the greatest value; every individual necessarily labours to render the annual revenue of the society as great as he can. He generally, indeed, neither intends to promote the public interest, nor knows how much he is promoting it. By preferring the support of domestic to that of foreign industry, he intends only his own security; and by directing that industry in such a manner as its produce may be of the greatest value, he intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. Nor is it always the worse for the society that it was no part of it. By pursuing his own interest he frequently promotes that of the society more effectually than when he really intends to promote it. I have never known much good done by those who affected to trade for the public good. It is an affectation, indeed, not very common among merchants, and very few words need be employed in dissuading them from it.

1. What is the basic idea Smith conveys in this reading?
2. What is the function of self interest?
3. How does Smith see self interest helping the public?
4. Give one example of how a merchant or shop keeper's self interest helps consumers.
5. Give one example of how a consumer's self interest helps a merchant or shop keeper.

SELF INTEREST

Activity III — Analyzing Economic Behavior

Divide the class into five groups. Assign each group one of the five occupations listed in the chart. Each group should discuss the self interest of the person in that occupation with regard to price, safety, durability, fashion and competition. After ten minutes, one member of each group should be prepared to make a two-minute speech on the group's findings. The class should fill in the chart with self interest views for each occupation discussed. The first item is filled in briefly as an example.

	SELF INTEREST CHART				
	garment worker	clothing manufacturer	consumer	retail merchant	cloth mill operator
price/cost	high wages	low cost high price	low price	low cost high price	low cost high price
safety					
durability					
fashion					
competition					

After completing the chart, describe, in a short paragraph, how self interest helps society function better.

Activity IV — Surveying Students and Teachers

Divide the class into two groups. One group will interview students; the other will interview teachers. Have each student interview three people and ask them several questions such as the following about self interest.

1. What self interest motivates your actions?
1. How does your own self interest help the school?
3. In what ways do your self interests run contrary to the interests of the school community?
4. How does your self interest effect your peers?

Then have the students summarize their results by filling in the following chart.

Student or Teacher Objectives	Helps the School	Harms the School
Students: Example: higher grades	better students	encourages cheating
Teachers: Students should hand in homework	should be prepared for class	encourages copying homework

LAND AND FREEDOM

ECONOMIC STUDIES

5. CLASS STRUGGLE

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Modern socialism developed from the effects of the Industrial Revolution.

Sub-theme: Marx stated that the class struggle was a result of poor economic conditions.

Background: See next page.

Concepts:
- Industrial Revolution
- class struggle
- means of production
- profits
- technology

Performance Objectives: Students will be able to:
- *analyze* a reading from *Das Kapital*
- *distinguish between* fact and opinion
- *research* labor conditions in several countries

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 17
- *Economics,* Merrill, ch. 19
- *Economics,* South-Western, ch. 6
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 2
- *Economics Today and Tomorrow,* Harper & Row, ch. 20
- *Invitation to Economics,* Scott, Foresman, ch. 16

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Henry George was an economist and philosopher whose land reform ideas have been adopted in many parts of Australia and New Zealand, as well as in Pennsylvania's major cities, including Pittsburgh. Land is a gift of nature, according to George, needed by all and to be shared by all, not by just a few.

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CLASS STRUGGLE

The Industrial Revolution dramatically changed the way society produced and distributed its growing output of goods and services. As business owners moved from a labor-intensive method of production to a machine-intensive method, capital changed from small-scale, human-powered devices to steam-powered machines able to produce millions of units each year. Mass production meant mass distribution. The consumer market became flooded with merchandise which filtered down to all levels of society.

Socialism was born as a possible solution to the ill effects of this new technology. Crowded cities, poor working conditions and subsistence-level wages created an environment for reform and radical changes. Karl Marx viewed the conflict between the capitalist and worker as a class struggle, a war that has been fought throughout history.

Marx claimed that capitalists, who owned the factors of production (land and capital), forced workers to labor at subsistence wages. Workers created all wealth, but capitalists received most of it. Workers earned barely enough money to survive.

Capitalists were able to exploit workers because they own both capital and land. Marx referred to these factors as the means of production. By reducing labor in favor of more capital, the capitalists' profits fell. He was forced to exploit the workers on a larger scale. Women and children were brought into the factories, and wages fell below the subsistence level.

Urban workers were dependent on factory owners for their jobs. Marx believed that industrial exploitation of urban laborers would lead to a revolution aimed at the overthrow of capitalism. This revolution would be started by the overworked and underpaid city workers.

In Marx's theory, the concept of class is defined in a general way. The capitalist is the person who owns the means of production. The worker owns only his labor, but the forces of capital and labor are interdependent. The complement each other. A laborer must work in order to turn capital and land into wealth. Capital cannot produce wealth without labor, and labor produces less easily without the use of capital. Nothing can be produced without the raw materials and building sites which are land. Therefore, today's higher standard of living is the result of nature and technology married to a highly trained and educated labor force.

There have been many instances of revolutions which pit capitalist against worker in the traditional Marxist "class struggle." Communist revolutions have tended to be more successful in societies where land ownership has been concentrated (with a few families owning most of the land). The redistribution of land helps to redistribute the country's available wealth. China, Cuba and Nicaragua illustrate that rural societies with traditionally monopolistic land classes have experienced class conflict to a greater extent than industrial societies.

In his theory of class struggle, Marx never fully distinguished between land and capital. Having failed to make that distinction, he may have misread the historical interdependence of labor and capital.

CLASS STRUGGLE

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. How did the Industrial Revolution effect the ways goods were produced?
2. What did Karl Marx mean by "class struggle?"
3. What are the means of production, according to Marx?
4. Is there a class struggle today between laborers and capitalists? Explain.
5. What is the role of land ownership in this struggle?

Activity II — Reading Das Kapital

The following is a reading from *Das Kapital* by Karl Marx.

> The character of creditor, or of debtor, results here from the simple circulation. The change in the form of that circulation stamps buyer and seller with this new die. At first, therefore, these new parts are just as transient and alternating as those of seller and buyer, and are in turn played by the same actors. But the opposition is not nearly so pleasant, and is far more capable of crystallization.* The same characters can, however, be assumed independently of the circulation of commodities. The class-struggles of the ancient world took the form chiefly of a contest between debtors and creditors, which in Rome ended in the ruin of the plebeian debtors. They were displaced by slaves. In the middle-ages the contest ended with the ruin of the feudal debtors, who lost their political power together with the economical basis on which it was established. Nevertheless, the money relation of debtor and creditor that existed at these two periods reflected only the deeper-lying antagonism between the general economical conditions of existence of the classes in questions.

*The following shows the debtor and creditor relations existing between English traders at the beginning of the 18th century. "Such a spirit of cruelty reigns here in England among the men of trade, that is not to be met with in any other society of men, nor in any other kingdom of the world."

After reading the excerpt from *Das Kapital,* please answer the following questions.

1. What is the difference between a creditor and a debtor?
2. According to the reading, how did slavery come into existence during the Roman period?
3. What was the underlying problem in this struggle during the Middle Ages?
4. What was the result of this struggle during the Middle Ages?
5. Evaluate the paragraph from *Das Kapital.*

CLASS STRUGGLE

Activity III — Separating Fact from Opinion

A fact is something that has happened or can be proven to be true. An opinion is something a person believes to be true. An opinion cannot be proven to be true. Below are several statements concerning the ideas of Karl Marx. Please state whether each expresses fact or opinion.

1. Economic considerations are the sole determinant of history.
2. Labor is the only active factor in the production of goods.
3. Employers always take advantage of their workers.
4. Some workers in industrial societies live on subsistence-level wages.
5. Throughout the world, most capital and land are controlled by a small percentage of the population.
6. The consumer is very important to a society's economic well-being.
7. Supply and demand determine prices in countries that have adoped the ideas of Karl Marx.
8. Decisions concerning the production of wealth are made by the government in communist nations.
9. All surplus value is produced by the worker.
10. Competition among capitalists will cause some of their businesses to fail.
11. Profits from capital will fall as capitalists use more machinery for production.

Activity IV — Researching Labor Conditions

Divide the class into small groups (3-4 students) and assign each group one of the countries below. Ask the groups to research labor conditions in that country, focusing on the four following areas. Have each group present their findings in a five-minute talk.

1. Work: wages, working hours, conditions, union activity, salaries, boycotts, fringe benefits, government laws relating to workers.
2. Living: housing, diet, clothing, transportation, medical care, recreation, entertainment.
3. Economic system: government powers, overall standard of living, conditions of workers in comparison with other segments of that society.
4. Worker Satisfaction: Each group should determine, using a scale of one to ten, if the workers in that country are content with their working conditions.

Countries: Japan, United States, Great Britain, Soviet Union, Brazil, Yugoslavia, South Africa, Poland, Nicaragua, Cuba (Use others from diverse areas of the world if more groups are needed.)

LAND AND FREEDOM

ECONOMIC STUDIES

6. ECONOMIC INSTITUTIONS

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Institutions help mold and shape our ways of thinking.

Sub-theme: Attitudes toward land ownership and speculation are derived from our culture.

Background: See next page.

Concepts:
- conspicuous consumption
- natural laws
- institutions
- land speculation
- public and private sectors

Performance Objectives: Students will be able to:
- *analyze* a reading dealing with institutions
- *explore* the decision-making process
- *evaluate* a chart on the influence of institutions

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 15
- *Economics,* Merrill, ch. 3
- *Economics,* South-Western, ch. 5
- *Economics of Our Free Enterprise System,* McGraw-Hill, chs. 13, 16
- *Economics Today and Tomorrow,* Harper & Row, ch. 11
- *Invitation to Economics,* Scott, Foresman, chs. 7, 8

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ECONOMIC INSTITUTIONS

Are natural laws the only forces that govern society's economic conduct? When we buy a car, a dress, a house or a T.V., do we consider more than just the price to determine our purchase? Let us consider other factors which influence our economic decisions.

In the late 19th century, Thorstein Veblen's ideas about social forces helped to create a new discipline called sociology. Sociology, the study of people living together in society, teaches that institutions help mold and shape our thoughts. An institution, as described by Veblen, is a cluster of habits and thoughts, ways of doing things and ways of thinking about daily activities. Institutions form an accepted pattern for the entire group. Institutions are created through a combination of public and private organizations, customs, beliefs, and traditions. They affect, among other things, how we spend our money.

Institutions can also affect the efficiency of the economy. Images of success, as shown through advertising and the media, seduce us into buying 'status' items such as designer jeans or sports cars. Veblen called this type of buying "conspicuous consumption." People in the middle and upper classes tend to buy goods that are expensive, useless or wasteful to impress others with their wealth. Institutions help define fashion trends, fads, etc. They tell us which values denote success and which characterize failure.

Thorstein Veblen believed that institutional values inhibit the production of wealth. Instead, these values emphasize money-making schemes. Very often making money conflicts with producing goods. Even today, the U.S. government, for economic and political reasons, sometimes pays American farmers not to produce food crops.

One accepted and lucrative occupation which produces no new wealth is the buying and selling of land. This occupation, called land speculation, should not be confused with the buying and selling of improvements to land such as houses and businesses. The exclusive buying and selling of land itself does not increase the amount of land or the number of houses available. Land investment involves the purchase and control of land in order to profit from its resale. A high value is given to acquiring wealth in American society. Land speculation can make for a lucrative career — even though nothing of "value" is produced. The social importance of this institution has rarely been questioned.

Making money is a socially acceptable act. Yet, as Veblen has demonstrated, it is sometimes in conflict with other values which emphasize the production of wealth, and the improvement of society. Land speculation does not produce wealth, since goods are not created. Profit is made as a result of what nature and society have created. As population and the demand for land increase, speculators reap the profits. Wealth is transferred from labor to the land speculator.

ECONOMIC INSTITUTIONS

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. How can institutions influence what consumers buy?
2. How can institutions influence how products are made?
3. How can institutions influence who receives society's output of goods?
4. What is "conspicuous consumption?"
5. Why does Veblen claim that there is a conflict between making money and producing goods?
6. What social or economic value does land speculation contribute to society?
7. How have institutions influenced your way of thinking about a career?

Activity II — Discussing Veblen

Below is a quote from Thorstein Veblen's *The Theory of the Leisure Class.* Please read the quote, then answer the questions.

> The situation of to-day shapes the institutions of tomorrow through a selective, coercive process, by acting upon men's habitual view of things, and so altering or fortifying a point of view or a mental attitude handed down from the past. The institutions — that is to say the habits of thought — under the guidance of which men live are in this way received from an earlier time; more or less remotely earlier, but in any event they have been elaborated in and received from the past. Institutions are products of the past process, are adapted to past circumstances, and are therefore never in full accord with the requirements of the present. In the nature of the case, this process of selective adaptation can never catch up with the progressively changing situation in which the community finds itself at any given time; for the environment, the situation, the exigencies of life which enforce the adaptation and exercise the selection, change from day to day; and each successive situation of the community in its turn tends to obsolescence as soon as it has been established. When a step in the development has been taken, this step itself constitutes a change of situation which requires a new adaptation; it becomes the point of departure for a new step in the adjustment, and so on interminably.

1. What factors will influence tomorrow's institutions?
2. What value judgement does Veblen make on the method of shaping future institutions?
3. Can you think of a better way to influence the nature of future institutions?
4. Are institutions which exist today considered liberal or conservative?
5. What is Veblen's point of view?
6. Use specific examples to illustrate the author's main point.

ECONOMIC INSTITUTIONS

Activity III — A Values Dilemma

The town of Beach Horizons is divided on the issue of changing the land use laws for their town. 50% of the residents are concerned that additional building will harm the environment and do damage to the beach area. The other residents want to increase the use of local land. They feel that this will increase property values and create jobs. The town has been in an economically depressed state with a 35% unemployment rate.

Mayor Daniels of the town wants to preserve the area. Daniels' father owns 100 acres of beach land and wants to sell it to a building company. The money gained would be used to put Daniels' younger brother and sister through college and pay off his debts. If the land is not sold, then Daniels' father will have to give 90 acres to his creditors. However, if the land remains as it is, the town will be preserved.

The town council is deadlocked on the issue. Mayor Daniels must break the tie by casting the deciding vote.

1. What obligation does Daniels have to his family on this issue?
2. If you were Daniels, how would you vote? Why?
3. What values would influence your vote? Explain.
4. What institutions would influence your vote?
5. Would you be influenced more by past occurrences, or future realities?
6. In some respects, the conflict comes down to 'Preserving the environment versus making money.' Which would you favor? Why?
7. Will building on vacant land improve the town? How?

Activity IV — Charting the Influence of Institutions

Fill in the following chart to better understand how institutions influence your behavior. For each institution, write in what values you subscribe to with regard to that institution. For example, in school hard work and honesty are values that are stressed.

		Family	School	Religious Institution
Values	1.			
	2.			
	3.			

After filling in the chart, please answer the following questions.

1. Describe how the institution of family influences your social relationships and career goals.
2. Describe how the institution of school influences your social relationships, career objectives, and feelings about yourself.
3. Describe how the institution of religion influences your career goals, social relationships, and attitudes about yourself.
4. Which institution affects you the most? The least? Explain.
5. Name another institution and describe how it affects your behavior.

LAND AND FREEDOM

ECONOMIC STUDIES

7. SUPPLY AND DEMAND

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: The price and quantity of goods produced is determined by the laws of supply and demand.

Sub-theme: Labor and capital react differently to the laws of supply and demand than does land.

Background: See next page.

Concepts:
- supply
- demand
- natural laws
- elasticity
- inelasticity

Performance Objectives: Students will be able to:
- *analyze* a reading on supply and demad
- *read* a supply and demand graph concerning capital
- *read* a supply and demand graph concerning land

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 3
- *Economics,* Merrill, ch. 6
- *Economics,* South-Western, chs. 7, 8, 9
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 8
- *Economics Today and Tomorrow,* Harper & Row, ch. 8
- *Invitation to Economics,* Scott, Foresman, chs. 5, 6

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SUPPLY AND DEMAND

The forces of supply and demand have an important influence on the way our economy operates. It affects prices, and in turn affects the type of goods produced, methods and the distribution of production. These forces help decide what goods find their way into stores and into homes, and what price you will pay for them.

Early classical economists regarded the laws of supply and demand as natural laws. Reacting against existing man-made laws which favored the nobility and the rich, they saw the laws of supply and demand as a means to allow for a more just production of wealth. A natural law describes trends in the way people act in society. Man-made laws derive from government action and are imposed on society.

The law of supply states that as prices of goods rise, the producer will increase production. As prices fall, production decreases. For example, in 1978, when gasoline cost 70 cents per gallon, production was low. When prices rose to $1.30, production increased greatly. The law of demand states that as prices fall, consumers buy more goods. When gas cost $1.30, people drove less and bought less gas.

Supply and demand interact to establish prices. When demand is greater than supply, prices rise. This encourages new producers to enter the business. New producers create competition which increases the supply of the good. When supply is greater than demand, prices fall. Producers then leave the industry, because low prices mean little or no business profits. Thus, supply and demand regulate competition and prices.

When neither supply nor demand change while prices change, then supply and demand are said to be inelastic. For example, if the price of salt doubled, demand would still remain about the same. The price of land doubles, and the supply of land remains the same. Therefore the demand for salt and the supply of land are inelastic.

Labor and capital operate fairly smoothly following the laws of supply and demand. If wages increase, more workers enter the field; if wages decrease in a particular field, workers leave that field. If wages rise compared to interest rates, then business people can substitute capital for labor. If interest rates rise compared to wages, then they substitute labor for capital. This constant competition encourages better use of society's resources.

However, land reacts differently because the supply is inelastic — there is a fixed amount of it. Supply and demand operate to create a price for land, but cannot affect the amount available. Increases in wages and interest encourage increases in the supply of labor and capital. Instead of increasing the supply of land, increasing prices cause more land speculation.

SUPPLY AND DEMAND

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. Explain the law of supply.
2. Explain the law of demand.
3. What is elasticity? Inelasticity?
4. Why is it difficult for supply and demand to properly regulate the use of land?
5. How do supply and demand function with regard to labor and capital?

Activity II — Discussing Supply and Demand

Noted economist Jean Baptiste Say wrote the following about supply and demand in his *Treatise on Political Economy.*

> Finally, whatever be the general or particular causes, that operate to determine the relative intensity of supply and demand, it is that intensity, which is the ground-work of price on every act of exchange; for price, it will be remembered, is merely the current value estimated in money. The demand for all objects of pleasure, or utility, would be unlimited, did not the difficulty of attainment, or price, limit and circumscribe the supply. On the other hand, the supply would be infinite, were it not restricted by the same circumstance, the price, or difficulty of attainment: for there can be no doubt, that whatever is producible would then be produced in unlimited quantity, so long as it could find purchasers at any price at all. Demand and supply are the opposite extremes of the beam, whence depend the scales of dearness and cheapness; the price is the point of equilibrium, where the momentum of the one ceases, and that of the other begins.

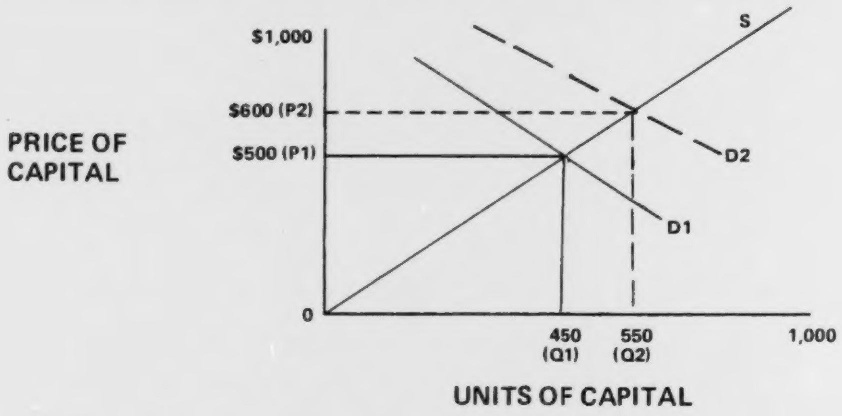
After reading the excerpt, please answer the following questions.

1. How do increases in supply affect prices?
2. How do decreases in supply affect prices?
3. What prevents a producer from creating an unlimited supply of his product?
4. What products or resources lend themselves to an absolute monopoly?
5. What is the role of price in determining supply and demand?

SUPPLY AND DEMAND

Activity III — Supply and Demand of Capital

Study the graph on supply and demand of capital and answer the following questions.

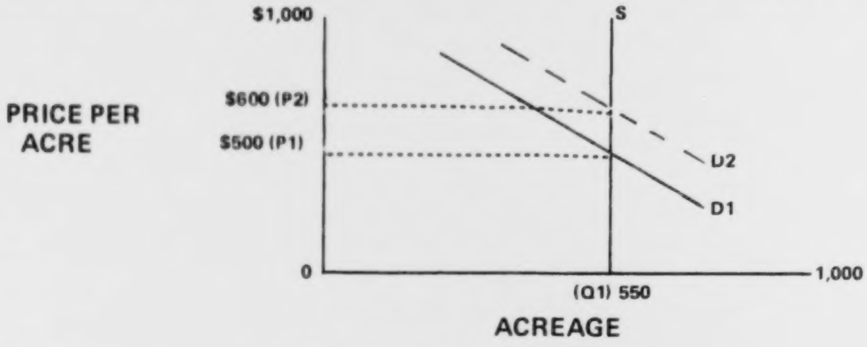


Legend:
D1 = original demand
D2 = new demand
P1 = original price
P2 = new price
Q1 = original quantity
Q2 = new quantity
S = supply

1. What is the price and quantity at D1?
2. When demand changes from D1 to D2, what is the effect on price and quantity?
3. The supply of capital is elastic. How does the chart confirm this?
4. What would cause the demand curve to shift from D1 to D2?
5. Give an example, using a specific product, of how elasticity works.
6. Does this chart deal with elasticity, inelasticity, or both? Explain.

Activity IV — Supply and Demand of Land

Study the graph on supply and demand of land and then answer the following questions.



Legend:
S = supply
Q1 = supply of land
P1 = original price
P2 = new price
D1 = original demand
D2 = new demand

1. What is the price and quantity where D1 intersects S?
2. When demand changes from D1 to D2, what happens to the price and supply of land?
3. What would cause the demand for land to increase? Decrease?
4. Can you increase the supply of land? Explain.
5. Does this chart deal with elasticity, inelasticity, or both? Explain.
6. Cite some examples of the workings of inelasticity.

LAND AND FREEDOM

ECONOMIC STUDIES

8. MARKETS AND PRICES

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: A marketplace is made up of buyers and sellers exchanging goods and services.

Sub-theme: Both monopoly and various forms of restrictions interfere with marketplace activity.

Background: See next page.

Concepts:
- competition
- monopoly
- monopolistic competition
- oligopoly
- market

Performance Objectives: Students will be able to:
- *analyze* a reading on markets and prices
- *complete* a puzzle on economic concepts
- *research* consumer products in a supemarket

Related Texts:
- *The American Economy,* Houghton Mifflin, chs. 3, 10
- *Economics,* Merrill, chs. 4, 7
- *Economics,* South-Western, chs. 9, 11-13
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 26
- *Economics Today and Tomorrow,* Harper & Row, chs. 3, 5, 6
- *Invitation to Economics,* Scott, Foresman, ch. 2

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MARKETS AND PRICES

Markets are formed in situations where buyers and seller come together to exchange goods and services for other things of value. A market is not necessarily formed in one particular place. Market activity can operate over a wide geographical area.

Local, regional and national markets form according to needs for services and goods, and available means of communication to do business. Improvements in transportation and communication technologies have increased the size of many markets. Today business people buy and sell by phone, and consumers can buy processed frozen foods grown several thousand miles away.

Markets provide buyers with current price information. Knowing which competitors have the lowest prices enables buyers to shop well. This competition helps to prevent other sellers from overcharging. Markets also give buyers access to alternate goods or substitute items. If ten different kinds of tomatoes are on sale, consumers can choose according to price, size, or taste. Knowing what substitutes are available prevents anyone from monopolizing the market. When the market operates well, the forces of supply and demand prevent waste and too high prices. Competition helps keep prices down. Because prices must remain reasonable, producers cannot sell products that are expensive or unwanted.

Competition is important to the well-being of the market in several ways. When a market is controlled by competition, there are no barriers to prevent sellers from entering the market. A seller will succeed only if his product is desired. Competition also brings prices down as competitors try to gain customers. When the market is operating properly, sellers can drop out without disrupting prices.

Very often the number of competitors determines the type of market buyers will face. Perfect competition in the market would create an unlimited number of sellers, each with a tiny percentage of the market. If the seller dropped out of the market, consumers would buy substitute products. The market would remain the same.

Monopolistic competition (imperfect competition) is characterized by a large number of sellers. They each produce a similar product. Service businesses like restaurants and hair cutting establishments are examples of monopolistic competition. A buyer can substitute a $10 hair cut for a $50 hair cut, but this will not force expensive prices down. These stores simply cater to different customers and charge very different prices. In monopolistic competition, buyers have less influence on prices.

Oligopolies have only a few sellers. Their products can be indentical, like steel, or similar, like automobiles. In this market, sellers can control prices through elaborate price schemes. If sellers raise prices together, consumers are forced to pay the higher price, or go without the product. In an oligopoly, competition does not work well to keep prices down.

Monopolies have no competitors and can influence prices greatly. It is very difficult to enter the types of businessess involved in monopolies due to the amounts of money and natural resources needed. For example, ALCOA had a monopoly on the production of aluminum for many years. The monopoly was based partly on the control of all lands that produced bauxite. Bauxite is the raw material necessary to the production of aluminum. No one could break into the industry because they could not acquire bauxite. ALCOA could charge a very high price for its aluminum.

Markets function best when healthy competition keeps prices and consumer powers in check. When the use of natural resources is increased in response to consumer demand, new wealth is created. Market operations can not work well when resources or finished products are monopolized. Through monopoly, workers and consumers are forced to pay higher prices for a product that may not fully meet their needs. Competition helps to create a market where the free exchange of goods and services benefits everyone.

MARKETS AND PRICES

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. Describe two purposes for markets.
2. What limits the size of a market?
3. Explain competition in terms of the market.
4. Explain the difference between perfect competition and monopolistic competition.
5. What is an oligopoly? A monopoly?

Activity II — Analyzing a Reading on Prices

The following excerpts from Milton Friedman's *Free To Choose* deal with the effect of price changes on the market. Please read the excerpts and answer the questions which follow.

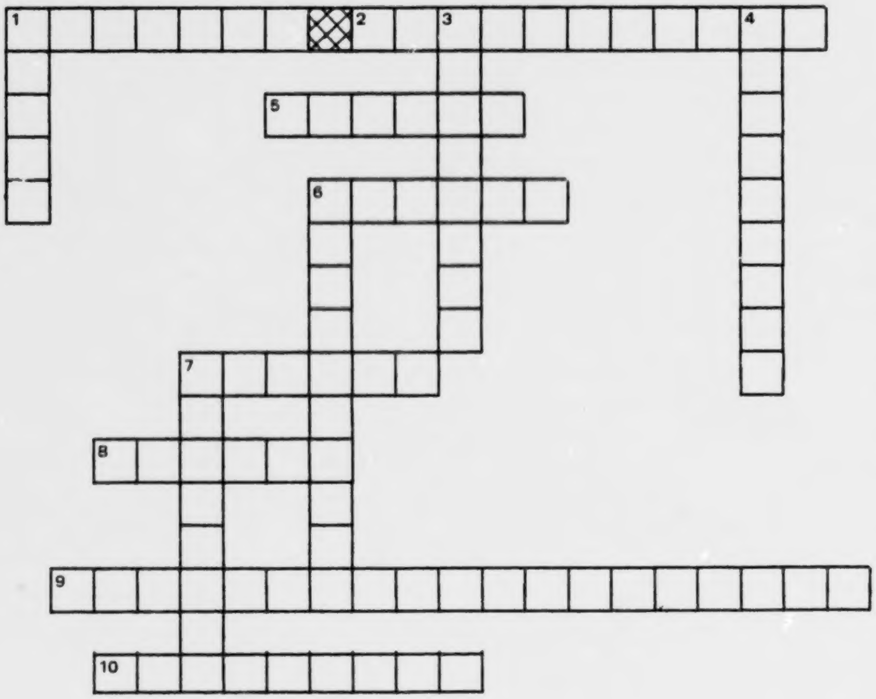
> Prices also provide an incentive to act on information not only about the demand for output but also about the most efficient way to produce a product. Suppose one kind of wood becomes scarcer and therefore more expensive than another. The pencil manufacturer gets that information through a rise in the price of the first kind of wood. Because his income, too, is determined by the difference between sales receipts and costs, he has an incentive to economize on that kind of wood. To take a different example, whether it is less costly for loggers to use a chain saw or handsaw depends on the price of the chain saw and the handsaw, the amount of labor required with each, and the wages of different kinds of labor. The enterprise doing the logging has an incentive to acquire the relevant technical knowledge and to combine it with the information transmitted by prices in order to minimize costs . . . .
>
> To carry this example one step further, the higher price of oil, insofar as it was permitted to occur, raised the cost of products that used more oil relative to products that used less. Consumers had an incentive to shift from the one to the other. The most obvious examples are shifts from large cars to small ones and from heating by oil to heating by coal or wood. To go much further afield to more remote effects: insofar as the relative price of wood was raised by the higher cost of producing it or by the greater demand for wood as a substitute source of energy, the resulting higher price of lead pencil gave consumers an incentive to economize on pencils! An so on in infinite variety.

1. What point of view does the author emphasize?
2. How do prices affect the way the factors of production are used? Give an example.
3. How do prices affect consumer decisions? Give an example.
4. What is the relationship between the concept "substitute" and "price?" Give an example.
5. In the author's view, what kind of functions does the market serve? Explain.

MARKETS AND PRICES

Activity III — Market Words Puzzle

Solve the puzzle below using economic terms found in the main reading. Clues are given. Your text book may also help you.



ACROSS

1. A market situation where there are many producers
2. Rivalry between two or more firms who wish to gain customers
5. Quantities of product which consumers are willing to buy at specific prices.
6. Quantities of a product which producers can make available at different prices
7. Trading goods or services for goods or services
8. A situation where buyers and sellers exhange goods of comparable value
9. A monopolistic competition is sometimes called ______
10. One of the characteristics of perfect competition

DOWN

1. When supply and demand interact, they create a market ______
3. A market situation where there is only one producer
4. A market situation where there are a few producers
6. The ability to replace a higher priced product with a lower priced one
7. Characteristic which prevents competition

Activity IV — Research Project

Go to your local supermarket with pen and paper. Choose three products from the following list and find the answers to the questions below.

1. beef
2. soda
3. soap
4. dog food
5. soup
6. potatoe chips

A.
1. How many producers sell this specific product in the supermarket?
2. How many different brand names does each competitor sell in the supermarket?
3. What are the prices of each brand name item?
4. How much shelf space does each seller get in the store? Does this affect market share? Does it affect price? Explain your answers.
5. What happens to sales if the supermarket has a sale on the product or brand name you are investigating? How does a sale affect substitutes?
6. How many supermarkets are there in a two-mile radius of the store you are using for research? Does this have an effect on prices? Why?

B. Make a two-minute speech using the information gathered at the supermarket. In the speech, make sure to answer the following questions:

1. Into what market did the products research fall — perfect competition, monopolistic competition, oligopoly or monopoly?
2. What is the relationship between price and competition?
3. What is the relationship between price and available substitutes?

LAND AND FREEDOM

ECONOMIC STUDIES

9. LAWS OF DISTRIBUTION

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: When wealth is produced, it is distributed to the owners of the factors of production.

Sub-theme: Rent, wages and interest are the avenues of distribution.

Background: See next page.

Concepts:
- natural law
- distribution of wealth
- interest
- rent
- wages
- profits

Performance Objectives: Students will be able to:
- *critically evaluate* two views on profits
- *analyze* a chart based on the factors of production
- *separate* cost items into rent, interest and wages

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 4
- *Economics,* Merrill, ch. 2
- *Economics,* South-Western, chs. 8, 16
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 9
- *Economics Today and Tomorrow,* Harper & Row, ch. 12
- *Invitation to Economics,* Scott, Foresman, ch. 10

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LAWS OF DISTRIBUTION

Economics sometimes relies on natural laws to develop and prove its theories of human behavior. The economic concept "distribution" refers to giving out or dividing something among a group. In common usage, "distribution" is the circulation of goods — wholesaler to retailer to consumer — which is really a part of production. Our economic term is more precise. The laws of distribution demonstrate that there is a natural pattern to the way wealth is divided among the producers of that wealth. The natural sequence of things places an order on the importance of each factor of production in the development and distribution of wealth.

Wealth is the result of labor using land and capital to create material goods. We call land, labor and capital the "Factors of production." Land is defined, for economic purposes, as everything in nature that humans have not created. This includes forests, rivers, air, minerals, soil and animals. Labor is the human effort (either mental or physical) involved in production. Capital is wealth used to produce more wealth and helps labor work more efficiently. Therefore, labor can produce greater quantities of wealth using a machine. Labor could produce wealth without capital, but at a slower rate. Non-industrialized societies give a good example of how labor and land produce wealth.

The laws of distribution explain how labor, land and capital obtain their rewards in the production of wealth. Labor's share of wealth is called wages. A worker earns pay for labor done. Land owners receive rent because they own the land. In the economic sense, rent refers to a payment for the use of land resource. Rents are paid for the use of mineral deposits, for timberland, farmland or water rights, but not for leasing an apartment. Economic rent is paid only for the land's economic value or potential for production.

Capital, the third factor of production, is a man-made product used to create goods. Machines, steel, fertilizer and computers are all different forms of capital. Capital makes labor more productive. Owners of capital receive interest for their contribution to the production of wealth. A capitalist (the owner of capital) charges a price for the use of that capital. This price is called interest. If a woman owns a loom, she can lease the loom to a weaver. The weaver will weave more cloth with the aid of the loom. With extra money from the extra sales of cloth, the weaver can pay the interest for the use of the capital.

The laws of distribution of wealth rely upon an important assumption about people — that they seek to satisfy their desires with the least effort possible. A laborer looks for the highest paying job, a capitalist maximizes the interest on his capital, and a landlord rents his land for the highest price. Therefore, with each factor competing for the best share of wealth, payments to land owners, laborers and capitalists must lie at a point where all gain. The principle that all people try to get the best for the least effort helps to establish an equilibrium between wages and interest. The relationship between rent and wages, however is just the opposite. Since land is a fixed quantity and cannot be reproduced, there is no equilibrium between rent and wages.

LAWS OF DISTRIBUTION

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1 Explain the importance of land, labor and capital in the production of wealth.

2. What are wages?

3. What is interest?

4. What is rent?

5. Which factor of production is not entirely necessary? Why?

6. People say that "money makes more money." From the explanation of the production of wealth, can you explain why this is said?

Activity II — Profits

The following is an excerpt from Henry George's *Progress and Poverty.*

> The word profits, as commonly used, is almost synonymous with revenue; it means a gain, an amount received in excess of an amount expended, and frequently includes receipts that are properly rent; while it nearly always includes receipts which are properly wages, as well as compensations for the risk peculiar to the various uses of capital. Unless extreme violence is done to the meaning of the word, it cannot, therefore, be used in political economy to signify that share of the produce which goes to capital, in contradistinction to those parts which go to labor and to land owners . . . . Adam Smith well illustrates how wages and compensation for risk largely enter into profits, pointing out how the large profits of apothecaries and small retail dealers are in reality wages for their labor, and not interest on their capital; and how the great profits sometimes made in risky businesses, such as smuggling and lumber trade, are really but compensations for risk, which, in the long run, reduce the returns to capital . . . . Similar illustrations are given in most of the subsequent works, where profit is formally defined in its common sense, with, perhaps, the exclusion of rent. In all these works, the reader is told that profits are made up of three elements — wages of superintendence, compensation for risk, and interest, or the return for the use of capital.

After reading the passages, please answer the following questions:

1. What does "profits" means?

2. From the reading, how do you think Henry George felt about profits?

3. What examples does Adam Smith give in his discussion of profits?

4. What are the three elements which make up profits?

5. Why are these three distinctions on "profits" important?

LAWS OF DISTRIBUTION

Activity III — Examining Business Income

Please study the following chart, then answer the questions.

DISTRIBUTION OF NATIONAL INCOME

Year	Compensation of employees (%)	Proprietor's Bus. Income (%)	Rental Income (%)	Net Interest (%)	Corporate Profits (%)
1905	54	25	9	5	7
1915	52	25	8	5	10
1925	60	18	8	6	8
1935	67	15	5	8	5
1945	64	17	4	2	13
1955	67	13	4	1.5	14.5
1965	71	10	3	3	13
1975	75.7	7.8	2.5	5.5	9.5
1985	74	6	2	9	9

1. What happened to wages from 1905-1985? What were the reasons?
2. What happened to proprietor's incomes from 1905-1985?
3. Using Henry George's definitions, under what category would proprietor's income fall? Could it be in more than one category? Explain.
4. What does rental income fail to tell us about land costs?
5. What do you think rental income includes?
6. How is rental income related to the factor of land?

Activity IV — A Close Look at Production

Below is a list of items that are involved in the production and selling of cotton dresses. Fill in the chart below by placing a check under the appropriate category — either land, labor, or capital. The first one is done as an example.

THE PRODUCTION OF COTTON DRESSES

Items	Land	Labor	Capital
land for growing cotton	X		
sewing machine workers			
location of retail store			
button and zippers			
trucks to ship the dresses			
T.V. and magazine advertising			
sales clerks			
rent for weaving machines			
cotton farm workers			
sewing machines			
factory owners's income			
manager's salary			
truck drivers			
ground rent for factory that assembles dresses			

LAND AND FREEDOM

ECONOMIC STUDIES

10. WAGES OF LABOR

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: There are many factors which determine the wages paid to labor.

Sub-theme: Base wages are determined by what labor produces without capital or payment for the use of land.

Background: See next page.

Concepts:
- real wages
- wage-fund theory
- law of wages
- marginal productivity theory
- productivity

Performance Objectives: Students will be able to:
- *critically evaluate* a reading on differences in wages
- *use a dictionary* in defining job categories
- *write an essay* on legislation dealing with wage rates

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 8
- *Economics,* Merrill, ch. 11
- *Economics,* South-Western, ch. 13
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 12
- *Economics Today and Tomorrow,* Harper & Row, chs. 21, 22
- *Invitation to Economics,* Scott, Foresman, ch. 14

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Henry George was an economist and philosopher whose land reform ideas have been adopted in many parts of Australia and New Zealand, as well as in Pennsylvania's major cities, including Pittsburgh. Land is a gift of nature, according to George, needed by all and to be shared by all, not by just a few.

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WAGES OF LABOR

Wages can be defined as the payments made to labor for its contribution to the production of wealth. In the United States, wages make up three quarters of all payments to the factors of production (land, labor and capital). Wages may be expressed in hourly, weekly, monthly, or yearly rates. A worker's wages are sometimes comprised of salaries, bonuses and profit-sharing. Money or nominal wages represent the amount of money paid to labor. Real wages refer to the purchasing power of money wages — how much real wealth money can buy at current prices. When money wages increase, and inflation increases at the same rate, real wages remain constant.

Workers' wages vary greatly in the United States. Professional entertainers and athletes receive millions of dollars in salaries, while policemen, firemen, and nurses are paid substantially less. Local government officials sometimes make only one tenth the salaries paid to corporation leaders and other business people. Coal miners and auto workers are paid more than supermarket clerks and clothing salespeople. What factors influence the wage rate?

In the 19th century, leaders in economics believed in the "wage fund" theory. This theory claims that a worker's wages come from capital. Consumer products were said to be produced in stages. Raw materials are processed by workers. Often the product is then shipped to other workers for further work. Finally, the finished product is shipped to retail outlets for sale. At each state of production, workers are paid before the final product is completed or sold. Therefore, the owner of any business must pay workers before he can sell the product. Many economits today doubt the validity of the wage fund theory.

Are wages based on capital, or is there another explanation? Output produced by a worker without the use of capital, on free land, belongs to the worker. When using capital, the return is shared by both the capitalist and the workers. However, the greater the percentage return to rent on land, the lower the return to both labor and capital. This suggests that the source of wages is not capital, but the effort exerted by the worker on land resources. In essence, workers store the value of their work in the product as it is produced. At each stage of the production process, capitalists exchange some of their money for the value already produced. Labor produces, *then* wages are paid.

The law of wages is a natural law which demonstrates that labor is paid according to what it alone produces, without the effort of land and capital. Since everyone wants to make a profit, an employer will not pay more for a unit of labor than that labor can generate in revenue for the employer. An employer will not pay more for a laborer "than what he's worth." In modern economics, this is referred to as the productivity theory of wages.

Differences in wage rates can be due to effort, skills, unions, innate abilities, government controls such as liscensings, and discrimination. Some of these items increase productivity, and their increased wages can be explained by the law of wages. Other factors tend to limit or restrict the number of workers, introducing elements other than productivity as determinants of wages.

Modern wage theories differ in some respects, but agree on one important point: labor receives wages based on its contribution to the production of wealth.

WAGES OF LABOR

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. What is the difference between money wages and real wages?
2. Explain the wage fund theory.
3. What is the law of wages?
4. What factors influence the amount of wages a worker can earn?

Activity II — Critical Reading on Wages

The following excerpt is from Adam Smith's *The Wealth of Nations.* Smith suggests different reasons for the varying wage rates in an industrialized society.

> First, the wages of labor vary with the ease or hardship, the cleanliness or dirtiness, the honorableness or dishonorableness of the employment . . .
>
> Secondly, the wages of labor vary with the easiness and cheapness or the difficulty and experience of learning the business . . .
>
> Thirdly, the wages of labor in different occupations vary with the constancy or inconstancy of employment . . .
>
> Fourthly, the wages of labor vary according to the small or great trust which must be reposed in the workmen . . .
>
> Fifthly, the wages of labor in different employments vary according to the probability or improbability of success in them.

Please answer the following questions:

1. Give an example of a job where wages are determined by only one of the above reasons.
2. Give an example of a job where wages are determined by two or more of the above reasons.
3. What are your own career plans? How do they fit in with Smith's discussion of wages?
4. How does minimum wage laws affect the above statements? What about professional associations?
5. Can you think of any other factors which explain wage differences? Explain.

WAGES OF LABOR

Activity III — Defining Job Categories

Using your textbook or a dictionary, explain the various types of workers in Column A. Then match the specific jobs in Column B with the appropriate job category.

A	B
white collar worker	teacher
blue collar worker	truck driver
service worker	cotton picker
semi-skilled worker	cook
unskilled worker	car mechanic
	assembly line worker
	dentist
	furniture maker
	printer
	bank clerk
	computer programmer
	lawyer
	bookkeeper
	barber
	typist

Activity IV — Essay Writing — Laws Affecting Labor

A. Fill in the chart below by marking a plus sign for increase, minus for decrease, and zero for no change to show the effects that proposed Congressional bills would have on the supply of labor, wage rates, and the price of goods.

	Supply of Labor	Wage Rate	Price of Goods
A			
B			
C			
D			
E			

A — Congress reduces immigration into the United States.
B — Congress increases minimum wage to $7.50 per hour.
C — Congress passes a closed shop law that requires employees to hire only union workers.
D — Congress passes a law to increase taxes and quotas on imports, reducing the amount of foreign goods available in the U.S.
E — Congress places a Social Security tax of 10% on all wages. The tax will be paid by the employer.

B. After completing the chart, have students choose one of the five proposed pieces of legislation and write an essay supporting their answers in the chart.

LAND AND FREEDOM

ECONOMIC STUDIES

11. INTEREST ON CAPITAL

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Interest, the reward for the use of capital, is one of the three avenues of distribution of wealth.

Sub-theme: Interest fluctuates with the demand for labor and the supply of capital.

Background: See next page.

Concepts:
- interest
- capital
- money
- wealth
- equilibrium

Performance Objectives: Students will be able to:
- *analyze* a variety of readings dealing with the term 'interest'
- *calculate* a rate of return on investments
- *critically evaluate* the purpose of capital

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 4
- *Economics,* Merrill, ch. 3
- *Economics,* South-Western, ch. 14
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 20
- *Economics Today and Tomorrow,* Harper & Row, chs. 4, 7, 11
- *Invitation to Economics,* Scott, Foresman, ch. 3

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INTEREST ON CAPITAL

Two important terms used in our discussion of interest are wealth and capital. Wealth is a physical, tangible, man-made product. Wealth has exchange value and satisfies a human desire. Capital is also man-made, it is wealth used to create more wealth.

People who use capital pay for its use, this payment is called interest. However, interest as defined here, is the return for the use of capital, a tangible product, and does not refer to the common usage of 'interest' on money. A reasonable rate of interest can be illustrated in the following example of capital use. Suppose a farmer raises his production of potatoes from six bushels to ten bushels with the aid of a plow. His use of the plow (capital) increases productivity. He earns the price of four bushels more, but now he must also pay interest on the borrowed capital. The rate of interest should lie within the range of the price of those extra four bushels. If the farmer pays the whole four bushels in interest, then the use of the plow will not help him. If the capital owner receives too little for the rental (plows wear down and he is responsible for replacing worn parts), he will not want to lend it. A just interest rate is one where both labor and capital will benefit.

What would happen if the returns to capital were greater than the returns to labor — if the plow owner got most of the four extra bushels produced , and the laborer very little? If the returns to capital are greater, then society produces more capital. As the supply of capital increases, interest rates fall, since there is now more competition to lend capital. As a result of the increase in capital, there is comparatively less labor available. The reduced supply of labor increases wages. This brings wages and interest to a level where they are equal. In other words, an equilibrium level is reached between wages and interest.

This process shows that the current interest rate helps to determine the supply of capital. If the interest rate is high, then more wealth will be converted into capital. People will stop spending and consuming their wealth. Instead, they will invest more into business. The business owner purchases capital with the borrowed funds. But if lending rates are low, people will not loan out their savings so quickly. Lending at low rates does not produce much of a profit for the lender.

Money is very often referred to as capital. But, if we increase the amount of money available, would that automatically increase the number of machines in use, or the amount of food to eat? The answer is no. Increasing the amount of money or bonds available without increasing the wealth behind each piece of paper does not increase capital. Paper money, including stocks and bonds, is simply a representation of wealth. Since we can't eat or wear money, it is not wealth in itself, but serves as a measure of potential wealth. We can trade money for the things we desire. Until it spent, money is only a representation of wealth.

However, the general interest rate is tied to wages. Interest and wages rise and fall together. As the percentage of rent increases, interest and wages receive a smaller portion of wealth. Thus, interest and wages fall as a percentage of the total income. These generalizations illustrate how society divides its wealth.

INTEREST ON CAPITAL

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. What determines the amount of interest that capital should receive for its contribution to production?
2. Does labor depend on capital, or does capital depend on labor? Can either function without the other? Explain.
3. Does capital receive all of the surplus wealth it helped to produce? Explain.
4. How is the equilibrium level arrived at?
5. What is the lowest return that the owners of capital will accept?

Activity II — Evaluating Differing Views on Interest

Please read the following views on the nature of interest, taken from several different text books, then answer the questions.

A. There are two ways of looking at the concept of interest. One is to think of interest as the price that is paid for the use of money or credit. For example, if you borrow money to buy a car, you must pay interest on the amount you borrow. Another aspect of interest is the rate of return that a productive piece of machinery earns. Machines, buildings, and computers are examples of capital equipment that can be productive. Capital contributes to production just as labor does. And the payment to capital is interest, just as the payment to labor is a wage.

B. "Contractual interest" is the amount actually paid for the use of capital. In most cases, contractual interest is a payment made for money borrowed to acquire "real" capital.

C. Consumers who buy on the installment plan pay contractual interest on these debts. Consumer loans, however, usually carry higher interest charges, and often are for shorter periods of time than capital goods loans.

D. Interest — The amount a borrower pays to a financial institution for the use of money, usually expressed as a percentage of the capital actually borrowed.

Please answer the following questions:

1. What is the view of interest expressed in each definition?
2. How do the views differ?
3. How do these definitions differ from the way interest is defined in the main reading?
4. Is there a common meaning in all the definitions? Explain.
5. What is at the heart of the confusion concerning interest?

INTEREST ON CAPITAL

Activity III — Calculating a Rate of Return

Business people very often are required to make decisions concerning the best way to invest their capital. These decisions are often based on the rate of return for a particular investment. In this exercise, calculate the rate of return for the following investments. Divide the amount of interest by the amount of investment money to obtain the interest rate. For example, if the interest is $1,000 on a $10,000 investment, 1,000/10,000 × 100% = 10% rate of interest, or rate of return on the investment.

	Amount of Interest	Amount of Investment	Rate of Return
1.	$500	$3,000	
2.	$400	$2,000	
3.	$1,000	$12,000	
4.	$1,200	$24,000	
5.	$5,000	$30,000	

Please answer the following questions:

1. Fill out the rate of return.
2. Which investment is most productive? Why may it not be attractive to all investors?
3. Which investment is least productive? Which investors would seek out this investment opportunity?
4. Where does capital come from? Is there a limit to the amount of capital in an industry? Explain.
5. If all interest rates dropped dramatically, what would happen to the supply of capital? Explain.

Activity IV — Critical Thinking on the Use of Capital

A. Read the following to the class and then have them answer the questions.

A shovel owner decides not to use the shovel, but to 'delay satisfaction' and lend it to you for a share of your production. But, capital must produce more than enough to pay the owner for delaying his desires. It must also produce enough to make borrowing the spade attractive to you — or you won't bother to borrow it.

1. The blade of the shovel you borrowed is continually blunted, sharpened, and used again. Would you expect there to be less blade and shovel as time went by?
2. The shovel will eventually wear away. Yet, you are required to return it to the lender. Will the lender be satisfied to receive a value equivalent to his spade?
3. Should a prudent producer set aside enough production to maintain and replace capital?

B. The amount of capital available is determined not by its physical properties, but by its exchange value at the marketplace.

1. The market value of a product increases. Is there more capital than before?
2. A famous sculptor uses his chisels on a block of marble to produce a work of art. When he has finished, more than 50% of the marble has been chipped away. Is there less capital than when he started?
3. Coal is burned. Oxides weigh more, so, after burning, the ash may be heavier and occupy greater volume than the coal. Does this extra product mean there is more capital?

LAND AND FREEDOM

ECONOMIC STUDIES

12. THE LAW OF RENT

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme:	Rent is one of the three avenues for the distribution of wealth.
Sub-theme:	The law of rent explains how economic rent is determined.
Background:	See next page.

Concepts:
- economic rent
- capital
- surplus value
- monopoly
- law of rent

Performance Objectives: Students will be able to:
- *evaluate* a reading on the law of rent
- *analyze* a chart on American corporate ownership
- *complete* an exercise in evaluating rent

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 4
- *Economics,* Merrill, ch. 2
- *Economics,* South-Western, ch. 16
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 9
- *Economics Today and Tomorrow,* Harper & Row, ch. 6
- *Invitation to Economics,* Scott, Foresman, ch. 1

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THE LAW OF RENT

Most people think of 'rent' as money paid to live in an apartment or for the temporary use of items such as a rental car. In economics, however, the term 'rent' or ('economic rent') has a different meaning. Rent is the price paid for the use of land resources.

Very often payments for land (rent) are mixed with payments for capital (interest). If a farmer pays for the use of a farm, he pays rent on the land to the landowners, but pays also for the capital improvements to the house and barn.

Rent is determined in large part by the availability of land and peoples' desire to use it. If land were free, then any wealth produced on that land would be divided between the laborer who worked it (wages), and the capitalist who supplied the capital (interest). However, because land is in demand, land owners can charge for the use of their property. Since there is only a fixed amount of land, as land becomes occupied, rents can increase drastically, leaving smaller portions of wealth for labor and capital.

Land, unlike capital or labor, is fixed in supply. Because land is necessary for survival, as population increases the rising demand land can cause rent to rise and take a larger share of the wealth produced. Economic rent is based upon the fact that there are differences in the productivity pieces of land availale.

The law of rent states that economic rent of a piece of land is determined by comparing that piece of land's productive capacity with that of the least productive land in use. For example, land which contains oil deposits will demand a higher rent than average farmland, because it produces more income with similar effort. Farmland will receive more rent than a dry, sandy lot for similar reasons. If the poorest land in use produces $10 worth of vegetables each month, and the same size of better quality farmland produces $100 worth of vegetables each month, then the rent on the farm is $90 per month. Rent is based on the productive capacity of the poorest land in use. However, as more land is occupied, less productive land is brought into use. This raises rents on all lands and lowers wages and interest.

Rent is paid only when there is a demand for land. When land was free, there was little or no rent paid for privately held land. Now, with almost all land privately owned, rents grow and grow.

Because there is only a fixed amount of land in the world, people can monopolize land through ownership. As we have shown, rents can rise virtually unchecked — land 'values' (the amount people are willing to pay) can go up and up. As rents rise, poorer land is brought into use. This lowers our standard of living, because as rents increase, even on poor land, less wealth is left for wages and interest. As land owners grow richer, the rest of society grows poorer.

THE LAW OF RENT

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. Why is the concept of rent confusing?
2. What is economic rent? Is it different from our everyday use of the word 'rent?'
3. What is a surplus value? What causes it to occur?
4. How is rent determined? Is it a fixed percentage of output? Explain.
5. Is rent based on what is actually produced on the land? Explain.
6. What is the law of rent?

Activity II — Discussing Rent

In *The Principles of Political Economy*, quoted below, David Ricardo elaborates on the concept of rent and stresses that rent is a monopoly price:

> Mines, as well as land, generally pay a rent to their owner; and this rent, as well as the rent of land, is the effect and never the cause of the high value of their produce.
>
> If there were abundance of equally fertile mines, which any one might appropriate, they could yield no rent; the value of their produce would depend on the quantity of labor necessary to extract the metal from the mine and bring it to market.
>
> But there are mines of various qualities affording very different results with equal quantities of labour. The metal produced from the poorest mine that is worked must at least have an exchangeable value, not only sufficient to procure all the clothes, food, and other necessaries consumed by those employed in working it, and bringing the produce to market, but also to afford the common and ordinary profits to him who advances the stock necessary to carry on the undertaking. The return for capital from the poorest mine paying no rent would regulate the rent of all the other more productive mines. This mine is supposed to yield the usual profits of stock. All that the other mines produce more than this will necessarily be paid to the owners for rent. Since this principle is precisely the same as that which we have already laid down respecting land, it will not be necessary further to enlarge on it.

Please answer the following questions.

1. What determines the rental value of a mine?
2. Why do some mines earn higher rents than others for their owners?
3. How is the wage rate determined for working in the mine?
4. What is the wage rate for working in the mine?
5. How are the earnings of capital operating in the mine?
6. What mines earn no rent?

THE LAW OF RENT

Activity III — Evaluating Land and Capital Resources

The following chart shows the distribution of American corporate resources. After studying the chart, please answer the following questions.

	Percentage of corporations	Percentage of corporate resources
Corporations with less than $100,000 of resources	54.9%	0.7%
$100,000 to $250 million	45.0	29.8
Over $250 million	0.1	69.5

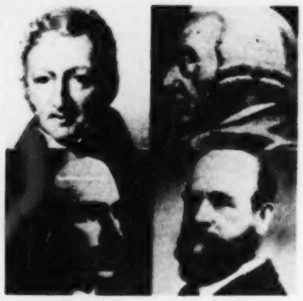
1. Give some examples of what are included under "resources."
2. What conslusions can you draw from the chart?
3. Explain, in your own words, the meaning of one of the categories in the chart.
4. What does the chart fail to show about corporate resources?
5. Does the chart give us any clues to how prices in general are influenced by this distribution of resources?

Activity IV — Mapping Land and Production

In the following chart there are five sections of land. Each section is free for the taking. Without the use of capital, a worker can produce, in one year, $1,000 worth of goods on Section A, $900 on Section B, etc. Please study the chart, then answer the following questions.

Section:	A	B	C	D	E	F
Production capability	$1,000	$900	$800	$700	$600	$500

1. If each of these sections are free for the taking, which would you choose to farm? Why?
2. What would your wages be for farming Section A?
3. If all of Section A land is taken (privately owned), and another worker wants land, which land will he choose to farm? Why?
4. How much does the worker in question 3 earn in wages?
5. If the worker did not want any of the free land, how much would he have to pay to work on Section A land? Why?
6. If all of Section B land is taken, and another worker wants land, which land will he choose?
7. How much will the worker from question 6 earn in wages?
8. How much would this worker have to pay to rent Section A? Section B?
9. As each new section of land becomes privately owned, and workers continue to want land, what happens to wages? What happens to rent? Develop a general statement in this situation about land, wages and rent.



LAND AND FREEDOM

ECONOMIC STUDIES

13. GROSS NATIONAL PRODUCT

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: A standard of measurement is important in evaluating the performance of an economy.

Sub-theme: Gross National Product is one standard by which we can measure the performance of an economy.

Background: See next page.

Concepts:
- real G.N.P.
- current G.N.P.
- consumer price index
- depreciation
- wealth

Performance Objectives: Students will be able to:
- *evaluate* a reading on the subject of wealth
- *calculate* and compute a consumer price index
- *critically evaluate* the effectiveness of G.N.P.

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 13
- *Economics,* Merrill, ch. 14
- *Economics,* South-Western, ch. 15
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 6
- *Economics Today and Tomorrow,* Harper & Row, ch. 14
- *Invitation to Economics,* Scott, Foresman, ch. 2

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GROSS NATIONAL PRODUCT

When the Great Depression lagged on into the early 1930s, economists began to question the very foundations of the American economy. With this questioning came a need to examine the economy in a scientific manner. Until this point, the United States had not developed a system to measure the nation's resources or its sources of income. During the height of the depression, a young economist named Simon Kuznets was called to join the National Bureau of Economic Research and Development. Kuznets developed the first system of national accounting. The system was later refined into the Gross National Product (G.N.P.) Accounting System.

During World War II, information about G.N.P. was very useful in determining wartime production goals. Efficiency levels were computed using potential G.N.P. After the war, the Commerce Department published annual reports stating the size of G.N.P. These reports were used by the business community to plan investment and marketing strategies. As time went on, people looked to G.N.P. figures as proof that society was making economic progress. G.N.P., which began as a method of measuring goods and services, became a method of measuring a nation's progress, growth, wealth, and well-being.

What does G.N.P. measure and what does it fail to measure? Gross National Product measures the market value in dollars of all retail goods and services produced in a given year. Dollar values of final sales are used in order to avoid double counting. For example, if we counted the sale of steel and then of automobiles, steel would be counted twice. G.N.P. counts only the final sale, the automobile.

Economists also distinguish between real G.N.P., which is caluculated using constant prices, and current (nominal) G.N.P., which is measured in current prices. Real G.N.P. makes adjustments for price increases and is therefore a more accurate measure.

G.N.P. does not include transfer payments (shifts of funds from one sector of the economy to another), securities transactions, used goods (resale of final products), and non-market activities such as at-home child care and housework. G.N.P. fails to measure leisure time, the quality and variety of goods available, and the distribution of output. The costs to society of pollution, drug abuse, and other contemporary social problems are sometimes referred to as Gross National Disproduct. In other words, anything which we do not place a dollar value upon, is not taken into account.

Although G.N.P. gives an indication of economic health, G.N.P. figures do not take all economic activity into account. It is not a completely accurate measurement. A nation may concentrate on military spending — making weapons — but if these items have no exchangeability in the marketplace, then they are not an indication of the affluence of a society. Yet the G.N.P. records military spending as wealth. G.N.P. does not measure the type of goods produced, nor their distribution throughout society. Non-paid labor, such as housework or in-home child care, is not recorded either. Neither bartering (exchanging goods for goods), nor the underground economy (that portion of the market that is not reported to government) is measured.

Until a better method can be used, however, the G.N.P. will remain the most favored measurement of national wealth.

GROSS NATIONAL PRODUCT

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. Why were G.N.P.-type statistical measurements developed?
2. How can information about G.N.P. help the economy?
3. What does G.N.P. measure?
4. What does G.N.P. fail to measure?
5. Do you consider activities such as housework 'real work'? Why or why not? Is it important that such things be measured by G.N.P.?

Activity II — Discussing Wealth

Below is a reading from *Progress and Poverty* by Henry George.

> Thus wealth, as alone the term can be used in political economy, consists of natural products that have been secured, moved, combined, separated, or in other ways modified by human exertion, so as to fit for the gratification of human desires. It is, in other words, labor impressed upon matter in such a way as to store up, as the heat of the sun is stored up in coal, the power of human labor to minister to human desires. Wealth is not the sole object of labor, for labor is also expended in ministering directly to desire; but it is the object and result of what we call productive labor — that is, labor which gives value to material things. Nothing which nature supplies to man without his labor is wealth, nor yet does the expenditure of labor result in wealth unless there is a tangible product which has and retains the power of ministering to desire.

Please answer the following questions:

1. What does Henry George believe 'wealth' is?
2. Make a list of five items George would classify as 'wealth,' and a list of five items he would not classify as 'wealth.'
3. Are G.N.P. calculations consistent with George's definition of wealth?
4. Which is a better measurement — wealth or G.N.P.? Explain.
5. Does Gross National Product reflect society's progress?

GROSS NATIONAL PRODUCT

Activity III — Creating a Price Index and Calculating G.N.P.

In this exercise, we will compute price index, current G.N.P. and real G.N.P. from the year, quantity and price of various goods. Price index is determined by dividing all prices of the current year by those of the base year, then multiplying by 100. (Price Index = price/base year x 100) To calculate current G.N.P., multiply quantity times price. (Q x P) To find real G.N.P., divide quantity for each year by the price index for that year, then multiply by 100. (Real G.N.P. = Quantity/Price Index x 100). The first figures are given as an example, using Year 1 as a base.

Year	Quantity	Price	Price Index	Current GNP	Real GNP
1	1	1	100	1	1
2	2	2			
3	3	3			
4	4	4			
5	5	5			

Please answer the following questions:

1. Using year three as a base year, calculate a price index in percentage terms.
2. Calculate current G.N.P. for all years in the chart.
3. Calculate real G.N.P. for all years in the chart.
4. Compare current and real G.N.P. What conclusions can you draw?

Activity IV — G.N.P. — Critical Thinking Skills

Measuring G.N.P. can be complicated, but it is based on some simple rules. In order to better understand the numbers involved in the calculation of G.N.P., choose three goods and three services industries to include in the chart below. Appproximate the number of units produced yearly for each. (You may wish to use an almanac.) Then follow the chart and estimate a price. The entire chart will approximate those goods' and services' contributions to the wealth recorded in the G.N.P. Refrigerators are given as an example.

Product	Quantity x	Price =	Dollar Value
Goods: Refrigerators	3 million	$400	1.2 billion
Services: Haircuts			

Please answer the following questions:

1. Does a rise in services such as haircuts reflect a change in our overall wealth?
2. Does a rise in services such as haircuts reflect a change in the G.N.P.?
3. Does the fact that more people buy refrigerators reflect a change in overall wealth? In the G.N.P.?
4. How does G.N.P. differ from wealth?

LAND AND FREEDOM

ECONOMIC STUDIES

14. BUSINESS CYCLES

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Business cycles have been part of our economy since industrialization.

Sub-theme: The theory of land speculation is one of several which explain the dynamics of business cycles.

Background: See next page.

Concepts:
- depression
- contraction
- expansion
- investment
- recession

Performance Objectives: Students will be able to:
- *evaluate* a reading on business cycles
- *calculate and compute* the effect of sales on business investments
- *develop* a chart showing the impact of each phase of the business cycle on economic activities

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 15
- *Economics,* Merrill, ch. 15
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 14
- *Economics Today and Tomorrow,* Harper & Row, ch. 14
- *Invitation to Economics,* Scott, Foresman, ch. 11

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BUSINESS CYCLES

Business cycles represent fluctuations in economic activity as the economy alternates between periods of good and bad times. It is a general rule that when the economy expands, production, employment, consumer spending, profits, capital investments, the money supply, and prices all increase. During this period of prosperity, people tend to be optimistic. When the economy contracts, production, employment, investments and the others all decrease. With the economy in recession, the prevailing mood is one of pessimism. If the recession continues and gets worse, it is called a depression.

Until the Great Depression of the 1930s, bankruptcy, unemployment and a general slow-down of the economy were considered temporary problems. Economists believed that the economy would right itself automatically after a time. Up to that point, history had demonstrated that the economy was a self-regulating system.

Classical economists believed that economic depressions are temporary. The economy is always trying to produce the maximum amount of goods and services. When total supply (aggregate supply) exceeds total demand (aggregate demand), workers are laid off because there are too many goods available. Producers compete to sell their unwanted goods by lowering prices. Unemployed workers accept lower paying jobs rather than remain unemployed. Because there is less of a "demand for money," interest rates fall. Producers can afford to produce at a lower cost. Workers can buy these items again. Supply has again created its own demand.

The Great Depression lasted for more than ten years. This forced economists to re-evaluate classical economic theories. John Maynard Keynes became the chief critic of classical economics. He believed that consumer and resource prices are not as flexible as classical economists had thought. Keynes said that unions and big business will resist price cuts. In periods of recession, people save money for emergencies. They don't spend much, and producers will not increase production until demand increases. In other words, a depression may well continue for a long time.

There are many other theories which try to explain what causes business cycles. Economist Milton Friedman suggests that changes in the money supply cause inflation and depression. The solution lies in the amount of money printed and credit available. Others place greater importance on psychological factors which cause public feelings of optimism or pessimism.

Land speculation is another business cycle theory. When land prices rise rapidly, it follows that economic rent (the return for the use of land) absorbs more of the wealth produced, leaving workers and capital to accept smaller returns. In addition, labor and capital are forced into using inferior land, thus reducing their rewards even further.

With land held out of use, part of the production process is halted since no products can be produced on this speculative land. As more investment is focused on speculation, less capital is devoted to the creation of true wealth. Land speculation eventually results in idle factories and increased unemployment.

The common idea tying all these theories together is that changes in consumption and investment affect national income and employment. Attempts to resolve consumption and investment problem can help ease the extremes of the business cycle.

BUSINESS CYCLES

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. Briefly describe the differences between Classical and Keynesian views of the business cycle.
2. Explain the meaning of aggregate supply and aggregate demand.
3. What are some of the causes of depression and recession?
4. What causes the cycle to move from one phase to the next?
5. How does land speculation lead to depression?

Activity II — Land Speculation — An Alternative View

In the following quote from *The Power in the Land,* Fred Harrison opposes conventional economic wisdom and explains his belief that land speculation is the first cause of depression and recession.

> Land speculation disrupts the industrial economy by distorting the distribution of income and contracting the supply of land available for homes and factories, shops and offices and farms . . . . Speculation caused depressions by enabling people to demand prices which were extraordinarily high: effectively, the monopolists demand a part of tomorrow's output today. The effect of this is to milk the returns to capital and/or labor . . . . Secondly, land monopoly enables speculators to hold land idle in the expectation of future capital gains. This is the wait-and-see strategy. As a result, scarce land is withheld from production — in itself preventing new employment — and as a consequence of the contracting in supply, this pushes up the level of rents of land in use. This has the effect of bankrupting some firms which would otherwise be profitable and competitive.

After having read the passage above, please answer the following questions:

1. What reasons does the author give for economic depressions?
2. How do high land prices affect the return to labor and capital?
3. What is meant by "monopolists demand a part of tomorrow's output today?"
4. Compare this explanation of depressions with others given in the background report.
5. What studies would have to be conducted to prove or disprove the author's thesis?

BUSINESS CYCLES

Activity III — The Accelerator Principle as a Cause of Business Cycles

A small change in sales creates a large change in business investment spendings. Let us examine this statement through a model problem. Suppose that Company X keeps $2 of capital on hand for every dollar of sales, and each year they must replace one million dollars worth of their own capital due to wear and tear (depreciation). Net investment is the difference in capital investment from one year to the next. For example, in 1980, capital investment (money the business puts back into its own business) was 100 million dollars (twice the amount of sales). Depreciation is a constant of one million dollars. A net investment of "0" occurs, because the same amount was invested the previous year. 100 million − 100 million = 0. Please fill in the rest of the chart. Note: All figures are in millions.

Year	Sales	Capital Investment	Depreciation +	Net Investment (Additional) =	Gross Investment
1980	50	100	1	0	1
1981	60	120	1	20	21
1982	70	140	1	20	21
1983	80				
1984	100				
1985	140				
1986	150				
1987	150				
1988	140				

After examining the chart, please answer the following questions:

1. Fill in the rest of the chart.
2. When was capital investment at its highest? Its lowest?
3. What does the chart tell us about the relationship between sales and capital spending?
4. How can the accelerator principle explain business cycles?
5. What happens to the economy when gross business investment decreases?
6. In your opinion, what causes sales to level off or decline? Will a decrease in sales always happen sooner or later?

Activity IV — Characteristics of Business Cycles

Below is a chart on the characteristics of business cycles. Categories place vertically, across the chart, show phases of the cycle. The horizontal columns chart their characteristics.

For each phase of the business cycle, fill in "increase," "decrease," or "no change" for each of the characteristics.

	Production	Investment	Consumption	Employment	Profits	(Optimistic) Attitude
Prosperity (expansion)						
Recession (contraction)						
Depreciation (contraction)						
Recovery (expansion)						

LAND AND FREEDOM

ECONOMIC STUDIES

15. TAXATION

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Taxes provide society with public services and goods.

Sub-theme: A good tax should meet specific criteria.

Background: See next page.

Concepts:
- progressive
- regressive
- income tax
- tax policy
- revenue

Performance Objectives: Students will be able to:
- *evaluate* a reading on criteria for taxation
- *determine* the validity of specific local and state taxes
- *plot* a graph of personal tax payments

Related Texts:
- *The American Economy,* Houghton Mifflin, ch.14
- *Economics,* Merrill, ch. 9
- *Economics,* South-Western, ch. 22
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 27
- *Economics Today and Tomorrow,* Harper & Row, ch. 17
- *Invitation to Economics,* Scott, Foresman, ch. 10

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TAXATION

Imposing taxes on specific goods or services can encourage certain activities and discourage others. In the nineteenth century, the Supreme Court stated, "The power to tax is not only the power to destroy but also to keep alive." Let us examine the powers and responsibilities of taxation.

A tax is a forced payment made to the government. Without the ability to collect taxes, governments would be unable to provide society with public goods and services such as police and fire protection and a national defense system. Taxes which are considered unfair can undermine a nation's confidence in its taxation system. Without the collection of tax money, economic activity would certainly suffer. There are, however, taxation standards which can insure that a tax is fair and does not hurt the economy.

First, a taxation system should be set up so that no one person bears a too great a tax burden. A fair tax must weigh the benefits received by the tax payer against the effects on his income and wealth.

The benefit theory of taxation states that people who receive the benefits of government programs should pay the taxes. A gasoline tax or road tolls force those who use the highways to pay for their upkeep. Another system, based on ability to pay, places a larger burden on those with higher incomes. A larger percentage of higher income earnings are paid in taxes, while poorer people pay taxes on a smaller percentage of their earnings.

Taxes based on the 'ability to pay' principle are called progressive taxes. They are progressive because as income increases, the percentage taken out in taxes also increases. Local, state and federal income taxes are examples of progressive taxes.

Taxes based on the benefit theory are usually regressive. Since the tax remains fixed, the lower your income, the more of it is taken up by taxes. Sales, property and Social Security taxes are examples of regessive taxes.

A tax should not prevent the market place from satisfying consumer wants. The power to tax can encourage or discourage production. For example, extremely high gasoline taxes force consumers to buy smaller cars and drive less. Offering tax breaks for home insulation during the energy crisis of the 1970s created a whole new home insulation industry.

A good tax can be collected without denying society valuable resources. If taxes become too high, or place too large a burden on one sector, then people will want to avoid paying taxes — legally or illegally. An underground economy often arises in response to peoples' desires to avoid taxation. Payments made in cash are harder to trace and harder to tax.

Tax policy is a controversial subject. In some ways, taxes help society pay for the services it uses. However, it is also true that taxes take money away from some people and give it to others. Very often this transfer takes the form of goods and services. Over the years, questions of fairness and tax evasion have led government officials to constantly consider and re-evaluate forms of taxation.

TAXATION

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. What is the definition of a tax?
2. Explain two standards used to determine a fair tax.
3. Contrast the effects of a progressive tax with those of a regressive tax.
4. What is meant by "tax policy?"
5. What are some of the services a government provides through the use of tax money?

Activity II — Evaluating Taxation

The following is an excerpt from Adam Smith's *The Wealth of Nations.*

> Every tax ought to be so contrived as both to take out and to keep out of the pockets of the people as little as possible, over and above what it brings into the public treasury, in the four following ways. First, the levying of it may require a greater number of officers, whose salaries may eat up the greater part of the produce of the tax, and whose perquisites may impose another additional tax upon the people. Secondly, it may obstruct the industry of the people, and discourage them from applying to certain branches of business which might give maintenance and employment to great multitudes. While it obliges the people to pay, it may thus diminish, or perhaps destroy some of the funds, which might enable them more easily to do so. Thirdly, by the forfeitures and other penalties which those unfortunate individuals incur who attempt unsuccessfully to evade the tax, it may frequently ruin them, and thereby put an end to the benefit which the community might have received from the employment of their capitals. An injudicious tax offers a great temptation to smuggling. But the penalties of smuggling must rise in proportion to the temptation. The law, contrary to all the ordinary principles of justice, first creates the temptation, and then punishes those who yield to it; and it commonly enhances the punishment too in proportion to the very circumstance which ought certainly to alleviate it, the temptation to commit the crime.

After reading the passage, please answer the following questions.

1. Explain the meaning of the first sentence in the excerpt.
2. Describe the three main points Smith makes in this excerpt.
3. How would Adam Smith evaluate the Federal Income Tax, the state and local sales taxes, the property tax, and the Social Security tax as they are managed today?
4. Have any of our current taxes encouraged smuggling?
5. Develop your own criteria for a good tax.

TAXATION

Activity III — Filling Out a Tax Report Card

Several criteria have been mentioned for a good tax. Using the taxes in the chart below, have students give each a grade and then give their reasons to the class. Two boxes have been left blank so that they may add any two additional criteria.

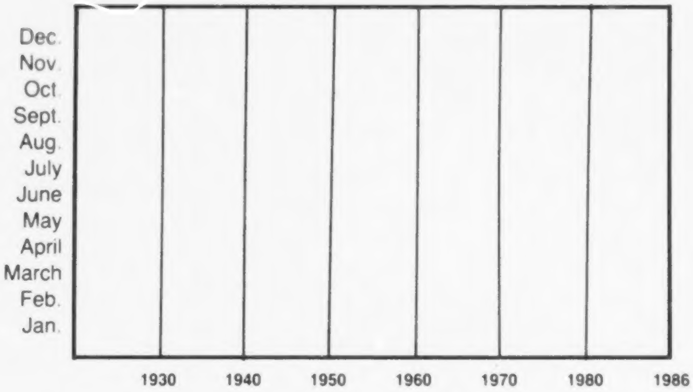
A — excellent tax
B — good tax
C — fair tax
D — poor tax
F — terrible tax

	light on production	**easy to collect**	**equitable**	**is a certainty**		
Social Security tax						
gasoline tax						
state income tax						
corporate tax						
excise tax						

Activity IV — Graphing Tax Payments

Tax Day represents the day of the year when tax payers finish paying all their taxes. This includes federal, state, local and Social Security taxes.

Year	Date
1930	February 13
1940	March 8
1950	April 4
1960	April 18
1970	April 30
1980	May 11
1986	June 15



On the graph, plot the tax day for each date by placing a dot on the appropriate date. Then connect the points and sketch the resulting curve.

Please answer the following questions.

1. What do you observe about the graph?
2. What percentage of the taxpayers' yearly income was taxed in each of the time periods as indicated in the chart above?
3. Is the taxpayer better off or worse off now?
4. What changes in government have accounted for these changes in taxes?
5. Which tax do you think represents the biggest burden to the taxpayer? The smallest burden?

LAND AND FREEDOM

ECONOMIC STUDIES

16. THE SINGLE TAX

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: The single tax represents a potential solution to the problems of fairness, enforceability and efficiency in taxation.

Sub-theme: Land value taxation evolved out of the single tax movement as an attempt to make the property tax more equitable.

Background: See next page.

Concepts:
- single tax
- land value taxation
- economic growth
- urban sprawl
- distribution of wealth

Performance Objectives: Students will be able to:
- *interpret* a primary source document
- *distinguish between* emotional and factual arguments
- *analyze* a graph and interpret information

Related Texts:
- *The American Economy,* Houghton Mifflin, chs. 11, 14
- *Economics,* Merrill, ch. 9
- *Economics,* South-Western, ch. 22
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 27
- *Economics Today and Tomorrow,* Harper & Row, ch. 18
- *Invitation to Economics,* Scott, Foresman, ch. 10

Because today's world demands a better grasp of economics by all, these lessons are published in the public interest by the Henry George School.

Henry George was an economist and philosopher whose land reform ideas have been adopted in many parts of Australia and New Zealand, as well as in Pennsylvania's major cities, including Pittsburgh. Land is a gift of nature, according to George, needed by all and to be shared by all, not by just a few.

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THE SINGLE TAX

A tax should be fair. It should not place a heavier burden on one person's production efforts than those of another. A tax should not increase the inequities in the distribution of wealth and income. A tax should not decrease the production of wealth. A tax should be collected at a minimum cost. Does the Single Tax measure up to these criteria of a good tax?

Henry George, a 19th century economist, believed strongly in the benefits of taxing land values only. He believed that a person should be entitled to the wealth he creates. Thus, labor is entitled to the fish it catches as well as the apples it harvests. A person who provides capital to produce clothing is entitled to the wealth generated by the machinery and tools. A tax on the wealth created by labor and capital is equivalent to taking away one's own property.

Land is not created by people. Land value is created by the community and all the services it provides. This increases the demand for land. Therefore, an increase in land value belongs to society. A tax on this wealth, created by the whole community, would be a fair tax.

Henry George proposed the Single Tax to help reduce the uneven distribution of wealth he saw throughout the United States. Its purpose was to give back to society the wealth society created.

A tax discourages the use of the thing taxed. If labor and capital are taxed, they will be used less. Less wealth will be created. However, a tax on land value encourages land use. A land owner must use his land in order to produce wealth and pay the tax. Land speculators, people who hold land idle to profit from its resale, would be taxed on their idle lands. This would encourage them to use or sell their lands, making more land available to people who want and need it.

To make land productive, one must hire labor and capital to work on it. This might mean farmers to farm the land, or construction workers to build a shop or apartment house. The land value tax helps unemployment and stimulates new growth.

Taxing land value lightly or not at all encourages land speculation. When land is held out of use, builders are forced to move further away from urban centers to acquire land. This urban sprawl wastes land and increases land prices, transportation and community service costs.

An effective Single Tax would eliminate the need for a huge bureaucracy of tax collectors, lawyers, accountants and judges devoted to enforcing or avoiding the wide variety of taxes that exist today. The land value tax is still being proposed today as a major solution to the problems of urban centers. By taxing land value and not the value of buildings or improvements on the land, cities can encourage growth. The tax would be easy to collect and would allow the government to judge what each person owed simply by evaluating increases in land value.

Henry George opposed all taxes on wealth produced by labor and capital. Through the Single Tax, land values created by the community would be brought back into the community in the form of taxes. This tax would help to redistribute wealth by placing a larger tax burden on those who own more valuable land. The Single Tax seems to meet our criteria for a fair tax.

Activity I — Background Questions

1. How does a tax on land values differ from a tax on labor and capital?
2. What is meant by land value? Who or what creates land value?
3. Does land speculation create anything of value for society? Explain.
4. Briefly describe the current property tax system. What are its main characteristics?
5. What tax advantage is there in letting buildings fall into a rundown state?
6. List and describe three benefits society would reap from the implementation of land value taxation.

THE SINGLE TAX

Activity II — Henry George and the Single Tax

The excerpt below is from a speech by Henry George entitled "The Single Tax."

> If we tax houses, there will be fewer and poorer houses; if we tax machinery, there will be less machinery; if we tax trade, there will be less trade; if we tax capital, there will be less capital; if we tax savings, there will be less savings. All the taxes therefore that we should abolish are those that repress industry and lessen wealth. But if we tax land values, there will be no less land.
>
> On the contrary, the taxation of land values has the effect of making land more easily available by industry, since it makes it more difficult for owners of valuable land which they themselves do not care to use to hold it idle for a large future price. While the abolition of taxes on labor and the products of labor would free the active element of production, the taking of land values by taxation would free the passive element by destroying speculative land values and preventing the holding out of use of land needed for use. If any one will but look around today and see the unused or but half used land, the idle labor, the unemployed or poorly employed capital, he will get some idea of how enormous would be the production of wealth were all the forces of production free to engage.

Please answer the following questions:

1. Based on the reading, what is the effect of taxing labor and capital?
2. What is the effect of taxing vacant land?
3. What practice would be discouraged if land were taxed more heavily?
4. Would urban areas change if George's taxation ideas were carried out? Explain
5. Would the Single Tax help or hurt the farmer? Explain.

Activity III — Seeing the Other Side

Five people who represent different interests attend a local meeting regarding changes in how property taxes should be assessed. Please read each speaker's statement and then answer the questions which follow.

Speaker A — I am a homeowner who would like to improve my property. However, I am afraid that if I add a room to my house or extend my patio, the property taxes on my house will increase greatly. I would like to see property taxes reduced.

Speaker B — I own some unimproved (vacant) land in town. I am against any increases in the property tax to support public services. I do not benefit directly from these services, so why should I pay higher taxes? Taxes should be based on the amount of wealth a person has.

Speaker C — I understand that your area has a 15% unemployment rate. I am interested in locating a large industrial production plant in your area. However, the cost of moving and construction are discouraging me from coming to your town. If you cut my property taxes in half, I might consider the move.

Speaker D — There is vacant land in the community which is taxed at a low rate. This land is currently held out of production. The owners are speculating on the fact that if a big factory is built in town, the land will greatly increase in value.

Speaker E — This town does not need more building. The land can not support more people. More factories will certainly pollute the environment.

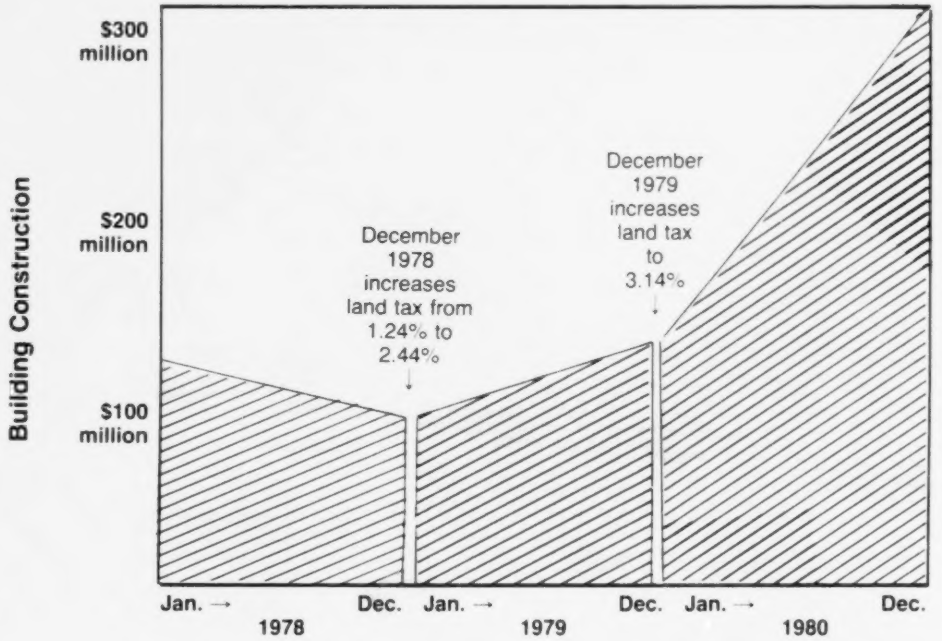
THE SINGLE TAX

1. Should speaker C be given a special tax break? Explain.
2. If the tax on buildings and improvements were eliminated, who would benefit? Who would not benefit? Explain.
3. Which speaker takes a position closest to that of Henry George?
4. Why does speaker A feel that the property tax is unfair?
5. Does speaker B feel that the property tax is unfair? Why?
6. How would Henry George answer speaker B?

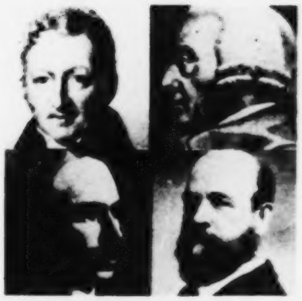
Activity IV — Building Construction Chart

Below is a chart on construction in Pittsburgh between 1978 and 1980. Study the chart, then answer the questions which follow.

Construction in Pittsburgh
1978 — 1980



1. What happened to construction in the year 1978? In 1979? 1980?
2. Based on the chart, what is the most important factor in bringing about a change in construction?
3. Are there any other factors that could have influenced the construction industry in Pittsburgh?
4. When construction increases, what do you suppose happens to land values?
5. How would increasing land values effect the taxes on vacant land?



LAND AND FREEDOM

ECONOMIC STUDIES

17. THE MALTHUSIAN THEORY AND THE LAW OF DIMINISHING RETURNS

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: The Industrial Revolution led to new methods for producing wealth.

Sub-theme: The Malthusian Theory states that population will increase faster than our means of subsistence.

Background: See next page.

Concepts:
- law of diminishing returns
- arithmetic progression
- geometric progression
- specialization
- subsistence level

Performance Objectives: Students will be able to:
- *compare* two views of population and poverty
- *plot* and analyze a graph on resources and wealth
- *analyze* statistics on population and economic growth

Related Texts:
- *The American Economy,* Houghton Mifflin, chs. 2, 11
- *Economics,* Merrill, ch. 21
- *Economics,* South-Western, chs. 8, 16
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 32
- *Economics Today and Tomorrow,* Harper & Row, ch. 21
- *Invitation to Economics,* Scott, Foresman, ch. 14

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THE MALTHUSIAN THEORY

The use of new machinery and working techniques ushered in by the Industrial Revolution enabled labor to produce more wealth than ever before. New economic groups appeared in society. Factory owners, managers and retail merchants were able to amass huge quantities of wealth as a result of industrialization.

As the new wealthy class emerged, the poverty of the working poor became more apparent. Millions of workers moved into dirty and congested cities. Wages were so low that entire families were sometimes forced to work in factories in order to earn only a subsistence wage — enough money to buy the bare minimum of food and clothing.

Thomas Malthus explained the reasons for poverty with theories of population growth. He said that there is a natural tendency for population to increase beyond a society's means to support it. Because population grows faster than people's ability to produce wealth, poverty is inevitable.

If the population increases as the level of technology and land resources remain constant, wages per person falls. This concept is called the law of diminishing returns. This happens because each worker has less land and technology to use in the production of wealth.

According to Malthus, population grows geometrically (1, 2, 4, 8, 16) while food supplies grow arithmetically (1, 2, 3, 4, 5). As time passes there will be a little more food, but many more people. Society will be forced to adjust to a lower standard of living. A larger percentage of the population will live at or below the subsistence level.

However, Malthus failed to take account of changes in technology. New technological discoveries and our ability to apply them to production have allowed society to increase wealth faster than population grows in the industrial areas of the world. The assembly line, first used by Henry Ford in the auto industry, helped create wealth more easily. The use of specialized labor also helped people work more efficiently. A job is broken down into several simple tasks which workers can complete at a higher speed. In fact, contrary to Malthus' predictions, the standard of living for industrial areas has increased.

In retrospect, one can see certain errors in Malthus' predictions and in the arithmetic and geometric progressions he used. However, his push for population control does represent an attempt to forestall the dangers of a population explosion. Malthus divided checks on population growth into two categories: positive, things which befall a people and reduce their numbers, such as sickness or war; and preventative, or man-made attempts to reduce the birth rate. Malthus believed that his theories on population growth followed a natural law. In the early 1800s, this allowed the wealthy to blame the poor for their own miserable surroundings and low standard of living.

Although Malthus' dire predictions have not yet come true, people still suffer from poverty and hunger. Thus, many feel that there is a relationship between increasing population and poverty.

THE MALTHUSIAN THEORY AND THE LAW OF DIMINISHING RETURNS

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. What were some of the economic effects of the Industrial revolution?
2. What is the Malthusian theory?
3. How do arithmetic and geometric progressions differ?
4. What did Malthus fail to take into consideration in the formulation of his theory?
5. In today's world, how valid are the ideas of Malthus? Explain.

THE MALTHUSIAN THEORY AND THE LAW OF DIMINISHING RETURNS

Activity II — Comparing Views on Population and Poverty

Below are two readings dealing with population. The first, by Thomas Malthus, is entitled *A Summary View of the Principle of Population*. The second excerpt is from David Ricardo's *On the Principles of Political Economy and Taxation.*

> It may be safely asserted, therefore, that population, when unchecked, increases in a geometrical progression of such a nature as to double itself every twenty-five years . . . . If, setting out from a tolerably well peopled country such as England, France, Italy, or Germany, we were to suppose that, by great attention to agriculture, its produce could be permanently increased every twenty-five years by a quantity equal to that which it at present produces , it would be allowing a rate of increase decidedly beyond any probability of realization . . . . Yet this would be an arithmetical progression, and would fall short, beyond all comparison, of the natural increases of population in a geometrical progression.
>
> -- *Thomas Malthus*

> It has been calculated, that under favourable circumstances population may be doubled in twenty-five years; but under the same favourable circumstances, the whole capital of a country might possibly be doubled in a shorter period. In that case, wages during the whole period would have a tendency to rise, because the demand for labour would increase still faster than the supply.
>
> -- *David Ricardo*

Please answer the following questions:

1. What is the central idea expressed in the first reading?
2. How do the readings differ concerning predictions about the future?
3. How accurate are the ideas of Malthus today? Explain.
4. According to Ricardo, what happens to labor when capital increases faster than population? Explain.
5. Which analysis is correct? Explain.

Activity III — Reading a Chart and Plotting a Graph

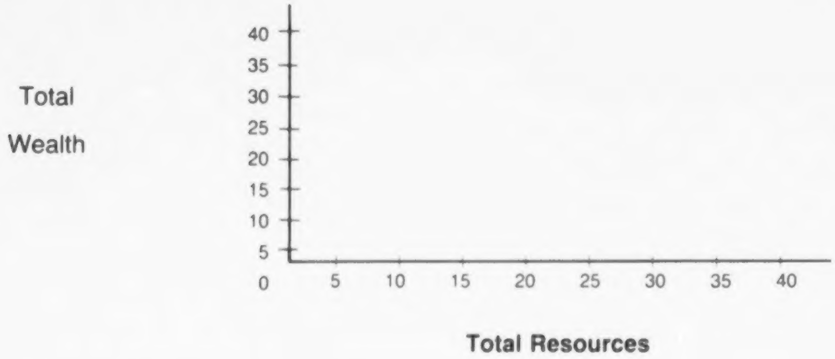
Below is a chart and on the next page, a graph. The horizontal line on the graph represents the total resources (land, labor and capital). The vertical axis represents total wealth produced. Plot both the total resources and total wealth on the graph by years and then connect the points.

CHART A

Years	Labor Force (Millions)	+	Land and Capital (Millions)	=	Total Resources	Total Wealth
1	4		10		14	14
2	7		10		17	19
3	12		10		22	23
4	20		10		30	27
5	30		10		40	29

THE MALTHUSIAN THEORY AND THE LAW OF DIMINISHING RETURNS

CHART B



Please answer the following questions:

1. What happens to the slope of the curve?
2. What will be the effect on the curve as population increases?
3. Divide total wealth by total resources for each year on the chart. Is there a pattern? Explain.
4. Divide total wealth by total labor for each year on the chart. Is there a pattern? Explain.
5. What can you conclude about total weaith when land and capital are held constant and labor increases? Explain.
6. What would happen if capital increased and population remained the same? Explain.

Activity IV — Population Growth

Study the chart below and then answer the following questions:

POPULATION AND GROWTH

Nation	Population (Millions)	Per Capita Income	G.N.P. (Billions)
Mexico	79	$1,800	$1,686
Philippines	56	772	166
U.S.	240	13,451	3,850
Nigeria	102	750	65
South Korea	43	1,187	79

1. Which nations have the highest and the lowest per capita income?
2. Which nations have the highest and lowest G.N.P. (Gross National Product)?
3. Is there a connection between population and G.N.P.?
4. Which nations could be used as evidence to support the Malthusian theory? Explain.
5. Which nations disprove the Malthusian theory? How?

LAND AND FREEDOM

ECONOMIC STUDIES

18. COMPARATIVE ADVANTAGE

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Through international trade, nations sell what they produce most efficiently and buy what others produce most efficiently.

Sub-theme: Even though some nations have an absolute advantage in all products, trading is always beneficial.

Background: See next page.

Concepts:
- comparative advantage
- absolute advantage
- subsidies
- international trade
- quotas

Performance Objectives: Students will be able to:
- *chart* a production possibility curve on comparative advantage
- *separate* fact from opinion on international trade
- *research* an American industry affected by foreign competition

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 19
- *Economics,* Merrill, ch. 18
- *Economics,* South-Western, ch. 24
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 30
- *Economics Today and Tomorrow,* Harper & Row, ch. 19
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COMPARATIVE ADVANTAGE

The economy of the 1980s in the United States is in the process of change. Radical shifts in the U.S. employment structure occur as Americans move from an industrial, blue collar foundation to a service-oriented work force. The country has recently experienced high unemployment in the auto, steel, textile and shoe industries. While unemployment remains a major problem, we have seen other goods-producing industries export hundreds of thousands of jobs to foreign countries where labor can be obtained more cheaply.

American workers have asked the federal government for relief from what they believe to be unfair foreign labor competition. Several government options would be to increase tariffs or taxes on imported goods, create quotas to limit the amount of incoming foreign goods, or subsidize American industry with government money. These measures might help initially, but would also discourage international trade and raise consumer prices. To further explore this situation, we must discuss the nature of national and international trade.

The objective of trade is to increase a society's wealth. This is done by producing products it can create easily and inexpensively, and trading some of those for things it cannot make so easily. For example, America buys well-made Swiss watches. The Swiss buy the grain that we grow quite efficiently. Economics is the study of how society tries to satisfy unlimited wants with limited resources. International trade is one method of achieving this goal.

More than 200 years ago, Adam Smith observed that nations, like individuals, have different characteristics. Each nations' capacity for labor, capital and land resources differs. This permits countries to specialize in the production of certain goods. Two nations may want to trade with each other if one can produce a product more cheaply than the other because of its mix of resources. That country is said to have an absolute advantage in that product.

However, trade would benefit two nations even if one had an absolute advantage in both items traded. Let us examine why. Country "X" can produce 30 units of radios or 35 units of rice while country "Y" can produce 25 units of radios and 20 units of rice for the same cost and time period. Country "X" is said to have an absolute advantage because it can produce both products more efficiently than country "Y". ("X" also has comparative advantage, because it can produce one product more efficiently than the other.) But if country "X" sells rice and buys country "Y"s radios, then "X" still gets profits from the sale of rice, "Y" gets the rice it wants (still more cheaply than it could produce it itself), and radios are still produced and sold. Both countries benefit through trade.

In conclusion, an ability to specialize in the production of goods, to gain an absolute advantage, should encourage free trade among nations. While each nation attempts to discover its own comparative advantage, through trade, the world still benefits from a more efficient allocation of its total resources. Other benefits of international trade include an elimination of surpluses and shortages, lower consumer prices, and a greater equality of resource prices.

COMPARATIVE ADVANTAGE

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions:

1. How can imposing tariffs and quotas save jobs?
2. What type of subsidies can the government use to help business?
3. Do tariffs, quotas and subsidies cost society anything? Explain.
4. Explain the meaning of absolute advantage.
5. If country A can produce 20 units of radios and 20 units of rice, and country B can produce 10 units of radios and 20 units of rice, explain how trade can benefit these two nations.
6. What are the benefits of a free trade policy?

Activity II — Creating a Production Graph

Design two graphs to show the production possibilities for each of country X and country Y. Each has the same quantity of resources. On graph paper, let the horizontal axis show the amount of rice produced, and the vertical axis the amount of cars produced. (Amounts are in Units.) Plot the given numbers on one graph. Connect the points to make two curves, one for each country. These are the production possibility curves.

	Country X			Country Y	
Possibility	**Rice**	**Cars**	**Possibility**	**Rice**	**Cars**
A	0	30	A	0	30
B	10	20	B	4	24
C	15	15	C	10	15
D	20	10	D	14	21
E	30	0	E	20	0

After making the graph, please answer the following questions:

1. Which nation has an absolute advantage in the production of rice?
2. Which nation has an absolute advantage in the production of cars?
3. Which nation has a comparative advantage? In what product?
4. Explain the meaning of the production possibility curve.
5. Using the figures above, explain why country X and Y trade.

COMPARATIVE ADVANTAGE

Activity III — Separating Fact from Opinion

A fact is something that has actually happened or can be proven to be true. An opinion is something that a person believes to be true. An opinion cannot be proven to be true. Please write fact or opinion next to each of the following statements.

____ 1. A nation gains more economically from imports than exports.

____ 2. Comparative advantage leads to specialization within different nations.

____ 3. Protective tariffs are beneficial to the country which receives them.

____ 4. David Ricardo was in favor of free trade.

____ 5. Specialization and trade depend on comparative advantage between countries.

____ 6. A tariff generally increases the price of a product.

____ 7. A quota generally increases the price of a product.

____ 8. Free trade improves a nation's economic well-being.

____ 9. All VCRs are produced in Japan. Therefore, Japan has a comparative advantage in the production of VCRs.

____ 10. A nation is better off economically if it exports more than it imports.

Activity IV — Researching American Industries

To begin your research project, choose a U.S. industry that has been adversely effected by foreign trade competition. Suggestions for these types of industries include; automobile, steel, textile, computer and television manufacturers.

After choosing an industry, please do the following:

1. If possible, go to a department store or outlet which sells the product you choose. List the various manufacturers making those goods, and indicate whether they are foreign or American companies.
2. Write a 400-500 word essay on the effect of foreign competition on:
    a) workers
    b) management
    c) economic conditions in the community

LAND AND FREEDOM

ECONOMIC STUDIES

19. FREE TRADE OR PROTECTION

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Nations tend to protect their economies from foreign competitors.

Sub-theme: Free trade encourages a more efficient use of resources.

Background: See next page.

Concepts:
- free trade
- protectionism
- surplus
- infant industry
- quota

Performance Objectives: Students will be able to:
- *analyze* a reading on free trade
- *defend* a position for or against free trade
- *role-play* to sharpen debating skills

Related Texts:
- *The American Economy,* Houghton Mifflin, ch. 19
- *Economics,* Merrill, ch. 18
- *Economics,* South-Western, ch. 24
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FREE TRADE OR PROTECTIONISM

"Under a system of perfectly free commerce each country naturally devotes its capital and labor to such employments as are most beneficial to each. This pursuit of individual advantage is admirably connected with the universal good of the whole." With this quote from *On the Principles of Political Economy and Taxation,* David Ricardo sides with free trade on the issue of free trade versus protectionism.

Classical economists, lead by Adam Smith and David Ricardo, believed strongly in the benfits of free trade. According to them, free trade increased world production and encouraged specialization, where industries choose only one or a small number of specific items to produce. According to classical economists, if each nation produced the items it could produce most easily, then the world would be using its resources most efficiently. Free trade would also eliminate shortages and surpluses that occur in individual nations. Each nation would be more efficient, both technically and economically. This in turn would bring about fairer prices and reductions in unemployment. Through free trade, resources would be redistributed and a greater equality in the price of resources would be achieved. In other words, wage rates in some countries would fall, while in others they would rise. The same would hold true for interest rates.

Free trade has lost much popular support as American workers and businesses are losing control of their domestic markets. Today many people champion systems of wage protection and employment protection. The basic idea behind anti-free trade or protectionism is that tariffs and trade quotas can protect American workers from cheap foreign labor. Cheap foreign labor lowers the price of foreign imports, lowering demand for more expensive American-made goods. Protectionists believe that economic protection allows workers to make more money, which they will ultimately spend and feed back to the domestic economy.

Protectionism, it is claimed, would also allow for a strenghtening of national defense. A nation must be self-sufficient in those industries necessary to carry on a war. We could not afford to rely on another nation for airplanes or ammunition. The impact of the Arab oil embargo in the early 1970s illustrates the need for a certain amount of self-sufficiency.

Protectionists also argue that the economy should be diversified for safety's sake. If a nation relies largely on the production of one crop or product, its income could be severely restricted if, for example, the crop fails, or a better substitute to the product is discovered. The old saying, "Don't put all your eggs in one basket" sums it up.

The infant industry argument for protectionism assumes that a tariff on competing imports would only be temporary. Protectionists say that a new, emerging industry, such as a shoe manufacturer, might need a head start on the foreign competition. A tariff on imported shoes would raise the price of foreign shoes and allow the American business to prosper. The theory is that, once the infant industry is on its feet, it will be able to compete without the aid of a protective tariff. In practice, however, once an industry acquires protection, it is reluctant to give it up. The textile industry, for example, one of the first U.S. industries to receive protection, is still clamoring for increased protection today. In fact, there is little incentive to ever outgrow the 'infant' stage.

Whether we uphold a national policy of protectionism or free trade, it is recognized that, in order for the United States to compete with international trade markets, it is necessary for us to improve productivity, upgrade capital investments and better use land resources.

FREE TRADE OR PROTECTIONISM

Activity I — Background Questions

If you give copies of the “Background” to your students, please have them answer the following questions:

1. Briefly describe the main arguments in favor of free trade.
2. What is your stance on the free trade issue?
3. What are the arguments which favor protectionism?
4. Does free trade harm society as a whole in any way?
5. Does protectionism harm society as a whole in any way?
6. What is the relationship between free trade and technical and economic efficiency?

Activity II — Reading from Protection or Free Trade

The following is an excerpted passage from *Protection or Free Trade* by Henry George.

> Trade is not invasion. It does not involve aggression on one side and resistance on the other, but mutual consent and gratification. There cannot be a trade unless the parties to it agree, any more than there can be a quarrel unless the parties to it differ . . . . Civilized nations, however, do not use their armies and fleets to open one another's ports to trade. What they use their armies and fleets for, is, when they quarrel, to close one another's ports . And their effort then is to prevent the carrying in of things even more than the bringing out of things — importing rather than exporting. For a people can be more quickly injured by preventing them from getting things than by preventing them from sending things away. Trade does not require force. Free trade consists simply in letting people buy and sell as they want to buy and sell. It is protection that requires force, for it consists in preventing people from doing what they want to do. Protective tariffs are as much applications of force as are blockading squadrons, and their object is the same — to prevent trade. The difference between the two is that blockading squadrons are a means whereby nations seek to prevent their enemies from trading; protective tariffs are a means whereby nations attempt to prevent their own people from trading. What protection teaches us, is to do to ourselves in time of peace what enemies seek to do to us in time of war.

Please answer the following questions:

1. What is the main point made in this reading?
2. How does trade differ from war?
3. What similarities exist between protectionism and blockading squadrons?
4. What is a “free trader”?
5. What does “protectionism” mean?

FREE TRADE OR PROTECTIONISM

Activity III — Speaking Out on Foreign Trade

Below are seven "comments" by various speakers. Write a short counter-argument for each speech. Include one specific example for each to support your point of view.

Speaker 1 — When American shoe companies open factories overseas, in countries where labor is cheaper, shoe companies make greater profits, but shoe prices here remain the same, and American workers are out of jobs.

Speaker 2 — If some countries have the advantage of lower labor costs because they use child labor, have no minimum wage, no workman's compensation or insurance, no social security or unions, then America should have nothing to do with exploiting that labor. American companies should not have factories in those countries.

Speaker 3 — If all trade barriers were eliminated, then the United States would still find it difficult to compete in international trade. Lack of productivity from American workers stands as a major reason for this.

Speaker 4 — It has been estimated that to save one job in the auto industry by restricting Japanese imports, American consumers pay $160,000 in higher prices.

Speaker 5 — The American steel industry has been severely damaged by illegal foreign practices which violate American anti-trust laws. It is nice to talk about free trade, but, in reality, most nations receive trade subsidies and compete unfairly to protect their own industries.

Speaker 6 — If auto workers lose their jobs because of foreign imports, why can't they be retrained for industries where the United States has a shortage of workers, like micro-wave technology?

Speaker 7 — As long as Japanese companies continue to sell computer chips below cost and Japan refuses to allow the American semi-conductor business to enter her domestic market, the United States must retaliate by placing tariffs and quotas on selected Japanese products sold in America.

Activity IV — Representing your Group at a Congressional Hearing

Simulate a Congressional Hearing in which the class is divided into groups of five. Some groups will represent industries hurt by foreign competition, and some will be free trade advocates. Have each group choose from the following list of organizations. The group will prepare an argument and represent that organization before a Congressional Hearing convened to discuss the following: "Tariff rates should be raised by 50%. Quotas on imports should be limited to only 10% of what was imported last year." Have each group discuss their topic, then choose one person to give a 2-minute presentation to the class.

National Association of Manufacturers
Chamber of Commerce
United Auto Workers
Import-Export Association
International Ladies' Garment Workers' Union
Consumer Organization

LAND AND FREEDOM

ECONOMIC STUDIES

20. ECONOMIC PROBLEMS OF LESS-DEVELOPED COUNTRIES

This is a series of self-contained lessons in the study of economics, with activities as highlights, which can be used with any high school economics classroom instruction.

Author: Ted Ehrman, teacher, Oceanside, NY
Economic Consultant: Stan Rubenstein, Director, Henry George School, NY

Theme: Economic systems of less-developed countries are based primarily on agriculture.

Sub-theme: Absentee landownership, common in many of these nations, is a major economic problem.

Background: See next page.

Concepts:

- land reform
- kibbutz
- absentee landownership
- cooperative
- L.D.C.

Performance Objectives: Students will be able to:

- *analyze* a reading by Sun Yat-Sen
- *use an almanac* to research information on different countries
- *evaluate* a chart on patterns of land ownership

Related Texts:

- *The American Economy,* Houghton Mifflin, ch. 18
- *Economics,* Merrill, ch. 24
- *Economics,* South-Western, ch. 24
- *Economics of Our Free Enterprise System,* McGraw-Hill, ch. 30
- *Economics Today and Tomorrow,* Harper & Row, ch. 21
- *Invitation to Economics,* Scott, Foresman, ch. 17

Because today's world demands a better grasp of economics by all, these lessons are published in the public interest by the Henry George School.

Henry George was an economist and philosopher whose land reform ideas have been adopted in many parts of Australia and New Zealand, as well as in Pennsylvania's major cities, including Pittsburgh. Land is a gift of nature, according to George, needed by all and to be shared by all, not by just a few.

The Henry George School, a non-profit academic institution, was founded in 1932 and chartered by the University of the State of New York. Besides its headquarters in New York, the School has affiliates in Philadelphia, Los Angeles, San Francisco, Long Island, Boston, Chicago and the Dominican Republic, and state coordinators in over eight states.

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ECONOMIC PROBLEMS OF LESS-DEVELOPED COUNTRIES

Most of the nations in Africa, Asia and Latin America are classified as less developed countries (L.D.C.s). These countries are largely agricultural and maintain a very low standard of living. Most families live on farms and produce only enough food to survive. A major drought or severe storm can lead to the deaths of hundreds of thousands of people.

Most of the L.D.C. population live on farms as tenant farmers. They rent their farmland from absentee landlords. The rent is usually fixed at a percentage of the crop produced by the farm family. Rents are often very high (50% of the crop), leaving the family little income.

Since farmers live at subsistence level, any savings are considered a luxury. Farmers cannot afford to invest capital in their farms. The absentee landlord collects rent, but does not invest money into capital (plows, better seed, fertilizer) which the farmer needs to grow more food. Landlords may loan money to farmers, but at exorbitant rates of interest. Food production remains low, and farmers have little incentive to improve their farms because they do not own them.

After World War II, several nations began to look for new methods for improving farm production. These changes all revolved around land reform. By eliminating the absentee landlord, reformers hoped that valuable income could be reinvested into farm improvements. A new farmer-landowning class would have new incentives to take more pride in production.

In 1950, Communist China introduced their land reforms. The government seized the holdings of landlords and distributed the land to the landless peasants. Small independent farms were banded together to form cooperatives which share farm machinery and tools.

The government then turned to large-scale collective farming. Farms of five to ten thousand families were formed and controlled by a government which made all the production and distribution decisions.

Japan and Taiwan adopted different land reform programs than China. Most lands were taken from the landlords, but they were allowed to keep 2.5 acres for themselves. In both Japan and Taiwan, the number of farmers who worked and owned their own farms increased almost two-fold.

Israel developed its own brand of land reform, embodied in the kibbutz and the moshav. On a kibbutz, or collective farm, land is owned by the government and leased to the collective for 49 years. Rents are small, and membership on the kibbutz is voluntary. People share work based on their different skills.

The moshav is a cooperative. Individual farmers rent their farms from the government. Farmers work their own farms, and farm families live in private houses. The farmer uses the cooperative to finance his farm loans, buy supplies and market his products.

In order for any land reform to be effective, the proposed program must be accompanied by a system for improving farming methods and production. A method for capital financing through loans and a way to educate farmers will help less developed nations to achieve more successful land reform programs.

ECONOMIC PROBLEMS OF LESS DEVELOPED COUNTRIES

Activity I — Background Questions

If you give copies of the "Background" to your students, please have them answer the following questions.

1. What is a less-developed country? Give several examples.
2. What are the major problems facing these areas?
3. How did Communist China deal with land reform in the 1950s?
4. What measures did Japan and Taiwan use to promote land reform?
5. Compare the kibbutz with the moshav in Israel.

Activity II — Analyzing a Reading

In *San Min Chu (Three Principles of the People)*, Sun Yat-Sen stated the following:

> When modern, enlightened cities levy land taxes, the burdens upon the common people are lightened and many other advantages follow. If Canton city should now collect land taxes according to land value the government would have a large and steady income, and there would be a definite source of funds for administration. The whole place could be put into good order. All miscellaneous taxes could be remitted. The water and electric light system used by the people could be provided without charge by the government and would not have to be a burden upon individuals. Funds for road repair and for upkeep of the police system could also be appropriated out of the land-tax receipts; extra road and police taxes would not have to be levied upon the people. But at present the rising land values in Canton all go to the landowners themselves -- they do not belong to the community. The government has no regular income, and so to meet expenses it has to levy all sorts of miscellaneous taxes upon the common people. The burden of miscellaneous levies upon the common people is too heavy. They are always having to pay out taxes and so are terribly poor. And the number of poor people in China is enormous. The reasons for the heavy burdens upon the poor are the unjust system of taxation practiced by the government, the unequal distribution of land power and the failure to solve the land problem. If we can put the land-tax completely into effect, the land problem will be solved and the common people will not have to endure such suffering.

Please answer the following questions.

1. Summarize the main points of this paragraph.
2. According to this quote, what are the benefits of taxing land values?
3. What are the various ways any type of government can obtain revenue?
4. Is Sun Yat-Sen's program too simplistic? Explain.
5. Why does land rise in value?
6. What do you think Sun meant by the land problem?

Activity III — Using an Almanac

Use your library's most recent Almanac or World Atlas to research information on four of the countries listed on following page. In the index (either in the front or back) locate information on these countries and

ECONOMIC PROBLEMS OF LESS DEVELOPED COUNTRIES

note various headings which can help you (name of country, economics, etc.). Then fill in the chart below and answer the questions which follow.

Countries: Japan
China
Cuba
India
South Korea
Kuwait
Israel
Philippines
Republic of South Africa

Economic Indicators	(1)	(2)	(3)	(4)
Gross National Product				
Per Capita Income				
Education (years)				
Life Expectancy				
Transportation System (miles)				
% of Workers in Agriculture				
% of Workers in Industry				
% of Workers in Services				

1. Classify each nation as developed or less developed.
2. Which nation was the most developed? The least developed?
3. What criteria did you use to answer question 2?
4. Explain what is meant by "gross national product" and "per capita income."
5. What other information would have been helpful in the chart?

Activity IV — Evaluating Land Ownership

Below is a chart showing the distribution of land in several nations. After studying the chart, please answer the questions which follow.

PATTERNS OF LAND OWNERSHIP

	% of land owned by wealthiest 10% of population	% of land owned by middle 80% of population	% of land owned by poorest 10% of population
Bangladesh	34		1.0
Barbados	95		.5
Brazil	45		1.5
Columbia	80		.2
Dominican Republic	63		2.0
El Salvador	78		.4
Greece	27		2.6
Guatemala	76		.5
Indonesia	48		3.0
Mexico	37		3

1. Fill in the second column on the chart.
2. Which country has the greatest concentration of land?
3. Which country has the least amount of land concentrated in the bottom 10% of the population?
4. Which nations on the chart are located in Latin America?
5. From the information on the chart, make a general statement about the nature of land ownership.